# KBC ANNUAL REPORT | 2007

# CONTENTS

Report of the Board of Directors to the Annual General Meeting of Shareholders

# Group profile

## AREA OF OPERATION AND STRATEGY

KBC is an integrated bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. It occupies leading positions on its home markets of Belgium and Central and Eastern Europe, where it specialises in retail bancassurance and asset management activities, as well as in the provision of services to businesses. The group is also active in a selection of other countries in Europe in private banking and services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Our strategy is based on:

- further developing the bancassurance concept in our home markets;
- focusing on organic growth and limited acquisitions to strengthen existing market positions;
- stressing customer-centricity and operational excellence, and achieving synergy within the group;
- preserving strict capital discipline;
- maintaining our stand-alone position;
- achieving ambitious financial targets for profitability (return on equity of 18.5%, annual average growth in earnings per share of 12%), for efficiency (cost/income ratio of 55% for the banking business and a combined ratio of 95% for the insurance business, both by 2009) and for solvency (a tier-1 ratio of 8% for the banking business and a solvency ratio of 200% for the insurance business).

## KEY NON-FINANCIAL FIGURES, 31-12-2007*

| | |
|---|---|
| **Shareholders** | |
| KBC Ancora | 23% |
| Cera | 7% |
| MRBB | 12% |
| Other core shareholders | 12% |
| KBC group companies | 4% |
| Free float | 41% |
| **Total** | **100%** |
| **Customers (estimate)** | |
| Belgium | 3.8 million |
| Central & Eastern Europe and Russia | 8.2 million |
| **Bank branches** | |
| Belgium | 923 |
| Central & Eastern Europe and Russia | 1 223 |
| **Insurance agencies** | |
| Belgium | 552 |
| Central & Eastern Europe | 14 573 |
| **Number of staff (in FTEs)** | |
| Belgium | 19 196 |
| Central & Eastern Europe and Russia | 31 947 |
| Rest of the world | 5 572 |
| **Total** | **56 715** |

| Credit ratings (end of February 2008) | KBC Bank (long-term rating) | KBC Insurance (claims-paying ability) | KBC Group NV (long-term rating) |
|---|---|---|---|
| Fitch | AA- | AA | AA- |
| Moody's | Aa2 | – | Aa3 |
| Standard & Poor's | AA- | AA- | A+ |

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

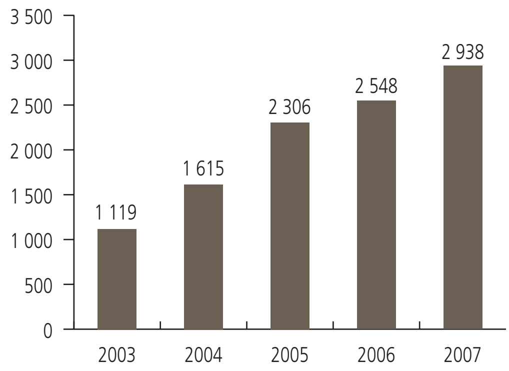
## KEY FINANCIAL FIGURES*

| Balance sheet and assets under management, end of period (in millions of EUR) | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Total assets | 285 163 | 325 801 | 325 400 | 355 597 |
| Loans and advances to customers | 111 177 | 119 475 | 127 152 | 147 051 |
| Securities | 98 862 | 125 810 | 111 959 | 105 023 |
| Deposits from customers and debt securities | 157 712 | 171 572 | 179 488 | 192 135 |
| Gross technical provisions and liabilities under investment contracts, insurance | 17 190 | 22 394 | 25 121 | 26 833 |
| Parent shareholders' equity | 12 328 | 15 751 | 17 219 | 17 348 |
| Risk-weighted assets, banking (Basel I) | 105 768 | 117 730 | 128 968 | 154 054 |
| Assets under management | 156 677 | 196 358 | 208 560 | 231 390 |
| **Income statement (in millions of EUR)** | | | | |
| Total income | 12 333 | 11 498 | 12 556 | 13 271 |
| Operating expenses | -4 944 | -4 914 | -4 925 | -5 219 |
| Impairment | -365 | -103 | -175 | -267 |
| Net profit, group share | 1 615 | 2 249 | 3 430 | 3 281 |
| Basic earnings per share (in EUR) | 4.48 | 6.26 | 9.68 | 9.46 |
| Diluted earnings per share (in EUR) | 4.39 | 6.15 | 9.59 | 9.42 |
| **Underlying results (in millions of EUR)** | | | | |
| Total income | 12 333 | 11 451 | 11 644 | 12 745 |
| Operating expenses | -4 944 | -4 794 | -4 976 | -5 154 |
| Impairment | -365 | -54 | -175 | -267 |
| Net profit, group share | 1 615 | 2 306 | 2 548 | 2 938 |
| Basic earnings per share (in EUR) | 4.48 | 6.42 | 7.19 | 8.47 |
| Diluted earnings per share (in EUR) | 4.39 | 6.27 | 7.13 | 8.43 |
| Net profit per business unit | | | | |
| Belgium | – | 1 096 | 1 104 | 1 321 |
| Central & Eastern Europe and Russia (CEER) | – | 327 | 426 | 618 |
| Merchant Banking | – | 821 | 871 | 843 |
| European Private Banking | – | 190 | 181 | 194 |
| Group Centre | – | -127 | -33 | -38 |
| **KBC share** | | | | |
| Number of shares outstanding, end of period ('000) | 310 849 | 366 567 | 363 217 | 355 115 |
| Equity per share, end of period (in EUR) | 33.6 | 43.8 | 49.2 | 50.7 |
| Highest share price for the financial year (in EUR) | 59.8 | 79.0 | 93.3 | 106.2 |
| Lowest share price for the financial year (in EUR) | 37.3 | 56.0 | 76.2 | 85.9 |
| Average share price for the financial year (in EUR) | 49.2 | 66.4 | 85.9 | 95.8 |
| Share price at year-end (in EUR) | 56.5 | 78.7 | 92.9 | 96.2 |
| Gross dividend (in EUR) | 1.84 | 2.51 | 3.31 | 3.78 |
| Equity market capitalisation, end of period (in billions of EUR) | 17.6 | 28.8 | 33.7 | 34.2 |
| **Ratios** | | | | |
| Return on equity | 14% | 18% | 24% | 21% |
| Return on equity (based on underlying profit) | 14% | 18% | 18% | 18% |
| Cost/income ratio, banking | 65% | 60% | 53% | 56% |
| Cost/income ratio, banking (based on underlying profit) | 65% | 58% | 58% | 58% |
| Combined ratio, non-life insurance | 95% | 96% | 96% | 96% |
| Loan loss ratio, banking | 0.20% | 0.01% | 0.13% | 0.13% |
| Tier-1 ratio, banking (Basel I) | 10% | 9% | 9% | 8% |
| Solvency ratio, insurance | 347% | 385% | 374% | 265% |

* For definitions and comments, see the detailed tables and analyses in this annual report. The figures for 2004 are based on a combined KBC-Almanij entity (except for 'Number of shares outstanding' and 'Equity market capitalisation', which relate solely to the KBC Bank and Insurance Holding Company). Moreover, the IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, and underlying profit was equated to net profit, which means the figures are not fully comparable with those for subsequent years. A number of adjustments were made retroactively to the balance sheet figures for 2006, due to differences in definitions.

## Net profit

*In millions of EUR**




* *2003: KBC Bank and Insurance Holding Company and B-GAAP; post-2003: KBC Group NV and IFRS. From 2005: underlying net profit.*

**André Bergen, CEO of the KBC group:**

**A graph is worth more than a thousand words. The spectacular increase in our earnings over the past five years bears witness to the success of our strategy and our unique business model.**

# KBC ANNUAL REPORT | 2007

# Brief history of the group

## 1998
- Two Belgian banks (the Kredietbank and CERA Bank) and a Belgian insurance company (ABB) merge to create the KBC Bank and Insurance Holding Company.
- KBC's unique bancassurance model is launched in Belgium.

## 1999
- The group embarks upon its policy of expansion in Central and Eastern Europe with the acquisition of ČSOB (in the Czech Republic and Slovakia).

## 2000–2005
- The group continues to expand its position in the banking and insurance markets of Central and Eastern Europe by acquiring banks and insurance companies in Poland, Hungary, the Czech Republic and Slovakia, becoming one of the top three players in the region's financial sector.
- The bancassurance model is gradually introduced to the home markets in Central and Eastern Europe.

## 2005
- The KBC Bank and Insurance Holding Company merges with its parent company (Almanij) to create KBC Group NV. The benefits to the group include the addition of a network of European private banks.

## 2006
- A new management structure is put in place, with five business units – Belgium, Central & Eastern Europe and Russia, Merchant Banking, European Private Banking and Shared Services & Operations – being established, each with its own management and objectives.

## 2007
- KBC's presence in Central and Eastern Europe is stepped up through acquisitions in Bulgaria, Romania and Serbia.
- KBC establishes a presence on the Russian banking market.

**TO THE READER**

'CEER' as it appears in this annual report refers to 'Central & Eastern Europe and Russia', as in the name of our CEER Business Unit.

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

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

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

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

# Main events in 2007

## JANUARY
- Start of the 3-billion-euro share buyback programme, spread over three years (2007, 2008 and 2009).

## MARCH
- KBC enters the Romanian market by acquiring Romstal Leasing, a local leasing company.

## APRIL
- Acquisition of Swiss Capital, a brokerage in Romania, and Equitas, an online securities broker in Hungary.
- Italian private bank, Banca KBL Fumagalli Soldan, is sold.

## JUNE
- KBC acquires ING's stake in International Factors Belgium, which is renamed KBC Commercial Finance.
- KBC becomes the sole owner of Serbian bank, A Banka.

## JULY
- Acquisition of a 95% stake in Russian Absolut Bank.
- Acquisition of Serbian securities broker, Hipobroker.
- The last of the remaining minority shareholders in Czech bank, ČSOB, are bought out.
- The US subprime crisis spreads, though its impact on KBC remains limited.

## AUGUST
- Acquisition of an 85% stake in DZI Insurance, the leading Bulgarian insurance company.
- A 51% stake is taken in Baltic Investment Company, a Latvian corporate-finance specialist.

## SEPTEMBER
- Acquisition of a 60% shareholding in Bastion, a corporate-finance specialist in Serbia.
- A customer survey taken in Belgium regarding services provided by bank branches and insurance agencies produces outstanding customer satisfaction scores.

## OCTOBER
- Serbian broker, Senzal, is acquired.

## NOVEMBER
- The 1-billion-euro share buyback programme for 2007 is completed. In total, 10.4 million KBC shares were bought back at an average price of 95.81 euros per share.

## DECEMBER
- A 75% shareholding is taken in Economic and Investment Bank in Bulgaria.

## POST-BALANCE-SHEET EVENTS
- January 2008: A protocol agreement is signed for the acquisition of Richelieu Finance, a French asset management company.

# Statement by the Chairman of the Board of Directors and the President of the Executive Committee

The KBC group turned in an exceptionally good performance over the past year and was affected to only a limited extent by the subprime crisis in the US. This short statement best sums up 2007 for KBC.

Nonetheless, we are sure our stakeholders would want us to begin our report by commenting on the subprime crisis. Undoubtedly, most of us will remember 2007 primarily as a year marked by the worldwide impact of this problem, initially confined to the US. Starting in the summer, the crisis spread to much of the rest of the world, causing unrest on the credit markets and even leading to a liquidity crunch in the financial system. However, KBC generally remained on the sidelines during the crisis in 2007 and – thanks to a prudent policy – was really only exposed to an indirect credit risk, and a limited one at that. Not a single write-off was required for the relevant CDO tranches in our investment portfolios, while the negative change in the market value of these tranches came to 109 million euros (after tax), due to the downturn in prices on the secondary market, a trend that continued into the opening months of 2008 and will probably lead to further market value adjustments. In keeping with our general communication policy, we decided from the outset to be transparent about how the crisis was affecting our group, an approach which we felt was appreciated by the markets.

The difficulties on the financial markets caused by the US subprime crisis also had only a limited impact on the results of our Merchant Banking Business Unit, whose underlying profit contribution was just 3% lower than in 2006. Our Belgium, Central & Eastern Europe and Russia, and European Private Banking business units recorded fine profit growth (of 20%, 45% and 7%, respectively), which enabled our group to post its best underlying annual earnings figure ever. At 2.9 billion euros, our underlying profit was no less than 15% higher than the outstanding figure for 2006, and our underlying return on equity came to 18.5%, exactly in line with our target.

Factors which contributed to these excellent figures included the exceedingly strong commercial dynamic in all our business units, not just the Central & Eastern Europe and Russia Business Unit, which again played its role as growth motor to the full, but also the Belgium Business Unit, where record results were accompanied by continually growing customer satisfaction. Our corporate banking and European private banking businesses also did very well in 2007. At 58%, the underlying cost/income ratio for our banking activities again illustrates that ours is a fairly efficient group. We believe this to be an important prerequisite for maintaining our independence in a consolidating European bank sector. Lastly, the quality of our credit portfolio did not change significantly in 2007 and, therefore, remains very high. Although this situation will be unsustainable in the longer term, we still do not see any signs of a marked deterioration in the near future. In addition to this underlying dynamism, there were also a number of non-recurring results in 2007 – virtually all of which were positive – which brought our IFRS net profit to 3.3 billion euros.

2007 was also an important year as regards the way in which we used our capital. For instance, we decided to make new acquisitions in Central and Eastern Europe, including in Serbia, Romania and Bulgaria, and also acquired a 95% stake in a bank in Russia, giving us a firm foothold in this highly promising market and providing our group with an engine for growth in the somewhat longer term. With no less than 1.7 billion euros in total being spent on takeovers and in increasing our shareholdings in the region, 2007 was a very important year on the investment front. At the same time, we continued to build up our existing core markets in the region (the Czech Republic, Slovakia, Hungary and Poland), where we bought out the remaining minority shareholders and boosted organic growth by further developing the commercial networks, among other things.

As in 2006, we again decided to return a portion of our excess capital to our shareholders by means of a three-billion-euro share buyback programme that is due to run for three years. In 2007, one billion euros' worth of shares were repurchased as planned.

In the pursuit of our business, we again devoted a good deal of attention to all our stakeholders. In 2007, we also took a number of initiatives aimed at highlighting our sustainable and socially responsible approach to business. You can read more about our commitment towards the environment, business ethics, community involvement and responsibility towards our customers and staff in our *Corporate Social Responsibility Report*.

In closing, we would like to take this opportunity to express our gratitude to our 57 000 employees for our group's excellent performance in 2007. We would also like to extend our thanks to our shareholders and our 12 million customers worldwide for the confidence they have placed in our group. We assure them that we will make every effort to remain worthy of this confidence in the future and invite you, the reader, to become better acquainted with our strategy through the window of this annual report.

André Bergen,
President of the Executive Committee
of KBC Group

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

# Group structure and strategy

La Gamme d'Amour, James Ensor

**KBC Group NV**

| 100% KBC Bank | 100% KBC Insurance | 99.9% KBL EPB |
|---|---|---|

## LEGAL STRUCTURE AND MANAGEMENT

The KBC group was created on 2 March 2005 through the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij. The schematic shows the group's legal structure, which has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and Kredietbank SA Luxembourgeoise (or KBL European Private Bankers, i.e. KBL EPB).

The group's management structure has been built around five business units: the Belgium Business Unit, the Central & Eastern Europe and Russia (CEER) Business Unit, the Merchant Banking Business Unit, the European Private Banking Business Unit and the Shared Services & Operations Business Unit. Each is managed by its own management committee, which operates under the Group Executive Committee and oversees both the banking and the insurance activities.

Each group company is assigned to one specific business unit, with the exception of KBC Bank NV, which is split up between the Belgium Business Unit and the Merchant Banking Business Unit. The Shared Services & Operations Business Unit includes group-wide product factories and departments providing support to the other business units. The management committees of the Belgium, CEER, Merchant Banking and European Private Banking business units are chaired by a Chief Executive Officer (CEO), while the Management Committee of the Group Services & Operations Business Unit is chaired by the Chief Operations Officer (Group COO). Together with the Group Chief Executive Officer (Group CEO) and the Group Chief Financial and Risk Officer (Group CFRO), these individuals constitute the Group Executive Committee.

The main group companies are listed per business unit later in this annual report in the separate business unit reports.

**Group Executive Committee**
Group-level support services

| Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit |
|---|---|---|---|---|
| This business unit groups all the banking and insurance activities in Belgium. Specifically, it comprises the retail and private banking activities of KBC Bank in Belgium, the activities of KBC Insurance in Belgium and the activities of a number of Belgian subsidiaries. | This business unit comprises all group banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe and in Russia. | This business unit groups the services provided to bigger SMEs and corporate customers, and all market activities worldwide (including Belgium, but not Central and Eastern Europe and Russia). | This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) and the insurance company, VITIS Life. | This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that deliver products to the group's other business units. |

## STRATEGY

*An integrated bancassurance group …*

KBC is clearly positioned as an integrated bancassurance group. This is illustrated by the fact that its banking and insurance activities are not managed separately but in a fully integrated manner via business units that encompass both types of activity. The product offering is not controlled from a separate banking or insurance perspective either, but is based rather on the needs of the customer, who can choose the banking or insurance product that best suits his individual needs. In this way, our group – unlike many others – is able to respond flexibly at any time to new market circumstances and to switch easily between classic deposit products, life insurance products and bank-related investment products.

*… catering mainly for retail customers, private banking clientele and small and medium-sized enterprises …*

The KBC group focuses on providing the widest possible range of bank, insurance and wealth management products and services to retail customers, private banking clients and mid-cap SMEs. It also provides services to corporate customers and engages in market activities.

*... with a geographic focus on the home markets of Belgium and Central and Eastern Europe …*

Geographically, KBC concentrates on its home markets of Belgium and Central and Eastern Europe, where it aims to engage in the full range of activities and serve all the targeted customer groups.

KBC is one of the top three financial institutions in Belgium, occupying a leading position in certain fields, such as investment. It aims to safeguard its position at the forefront of this market and, where necessary, to consolidate it. In Central and Eastern Europe, KBC has significant positions primarily in the banking and insurance markets of the countries that took part in the first wave of EU accession (the Czech Republic, Slovakia, Hungary and Poland). The aim is to strengthen these positions by means of organic growth and, if necessary, by making further limited acquisitions. Since 2007, this presence has been extended to countries that were in the second wave of accession to the EU (Bulgaria and Romania) and to prospective members of the EU (Serbia). The aim is to develop a fully fledged bancassurance presence in these countries, too, through a combination of organic and external growth. KBC's presence in Central and Eastern Europe should enable it to achieve above-average growth in the next five to ten years. To ensure that growth continues beyond then, an acquisition was also made on the Russian banking market in 2007. The priority here is to develop a banking presence in a rapid but controlled manner.

*… and a selective presence in the rest of the world …*

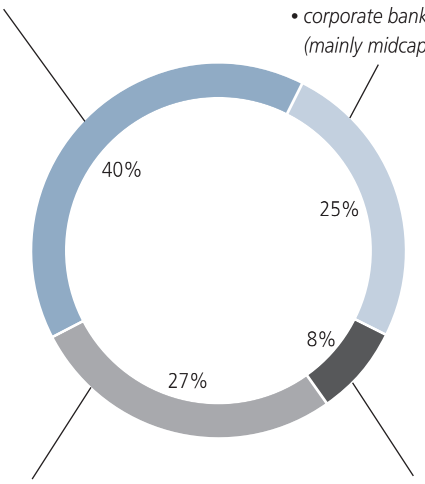
Besides operating in Belgium, Central and Eastern Europe and Russia, the group is present in various other countries in Western Europe and to a less extent in the US and Southeast Asia. This presence includes a number of KBC Bank branches and subsidiaries specialising in corporate banking and certain niche activities. The group also engages in private banking in certain European countries through the private banking network of KBL EPB, with the focus on on-shore private banking in the Benelux and neighbouring countries.

***Business mix in 2007***

*Based on underlying total income less technical insurance charges*

Belgium, retail bancassurance
- *retail bancassurance*
- *asset management*
- *private banking*

Central & Eastern Europe and Russia
- *retail bancassurance*
- *asset management*
- *private banking*
- *corporate banking (mainly midcap SMEs)*




Merchant Banking
- *corporate banking in Belgium and selected countries in Europe, America and Southeast Asia (mainly midcap SMEs)*
- *capital market activities*

European Private Banking
- *onshore private banking (Benelux and neighbouring countries)*
- *offshore private banking (primarily Luxembourg)*

## FINANCIAL TARGETS AND SHARE BUYBACK PROGRAMMES

The group's financial targets for 2007-2009 are shown in the table, with the basis being underlying profit for 2006. The solvency targets take account of the Basel I capital requirements.

### GROUP FINANCIAL TARGETS FOR 2007-2009

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

For a definition of the above ratios, see the 'Additional information' section. Where relevant, 'profit' refers to underlying profit.

* CAGR: compound annual growth rate.

Following the successful completion of the share buyback programme in 2006 (for a total amount of one billion euros), the group decided to return a substantial proportion of the group's surplus capital to its shareholders over the next few years via a new share buyback programme. KBC defines *surplus capital* as the difference between the capital available and the capital needed to achieve the internal solvency targets in both the banking and the insurance activities.

This new programme will be for a total of three billion euros and will run for a period of three years (2007, 2008 and 2009). The shares will be repurchased in the open market and no dividend will be paid on them. Only when the par value of the repurchased shares exceeds 10% of the issued capital, will the portion above this limit be cancelled. The new programme is, however, subject to changes (amount, timing, etc.) if market circumstances demand (for instance, if opportunities crop up to make major acquisitions with good earnings potential). In 2007, 10 436 312 shares were repurchased for a total of one billion euros under this programme.

### SHARE BUYBACK PROGRAMMES

| | Repurchase amount | Number of shares repurchased | Average purchase price |
|---|---|---|---|
| 2006 programme | 1 billion EUR | 11.7 million | 85.08 EUR |
| 2007-2009 programme | | | |
| 2007 | 1 billion EUR | 10.4 million | 95.81 EUR |
| 2008 (planned*) | 1 billion EUR | – | – |
| 2009 (planned*) | 1 billion EUR | – | – |

* May be subject to changes (amount, timing, etc.), if market circumstances demand (for instance, if opportunities crop up to make major acquisitions with good earnings potential).

**Herman Agneessens, KBC Group CFRO, commented on the main drivers of future growth in earnings per share:**

**The growth of our group is underpinned by our extremely strong position on our home markets of Belgium, which combines relatively low risk with high profitability, and Central and Eastern Europe and Russia, an additional growth driver for the group.**

**We set ourselves apart from our competitors in these markets by means of our specific bancassurance model, which is based on the fully integrated management of banking and insurance activities and a unique model for co-operation that exists between the bank branches and the insurance agents. This model is extremely successful in Belgium and is also being exported to our home markets in Central and Eastern Europe.**

**In addition, we are focusing on operational excellence and achieving internal economies of scale to ensure that our group remains extremely efficient and so is able to safeguard its independence.**

**Lastly, our growth is also supported by strict capital discipline, with new acquisitions having to satisfy rigorous profitability requirements and surplus capital being checked on a regular basis to see whether it can be paid out to our shareholders, whilst an adequate buffer is preserved.**

# Group Executive Committee

The Group Executive Committee, which is responsible for managing the group in line with the general strategy set by the Board of Directors, is chaired by the Group CEO and has seven members.

The members of the Group Executive Committee are appointed by the Board of Directors and some also sit on the Board as executive directors. The Group Executive Committee's responsibilities are divided up among the members, but this does not detract from their collective responsibility. The members of the Group Executive Committee at year-end 2007 are shown in the table. You can also find a brief CV for each of them on the www.kbc.com website, under 'corporate governance'.

More information on the management of KBC is available in the 'Corporate governance' section of this annual report.

Frans Florquin

André Bergen

Herman Agneessens

| Name | Date of birth | Main diploma | Joined KBC[1] in | Responsibility[3] |
|---|---|---|---|---|
| André Bergen | 1950 | Master's Degree in Economic Sciences (K.U.Leuven) | 1977 and 2003[2] | Group CEO |
| Herman Agneessens | 1949 | Doctorate in Law (K.U.Leuven) | 1971 | Group CFRO |
| Chris Defrancq | 1950 | Master's Degree in Mathematics (UGent) and in Actuarial Sciences (K.U.Leuven) | 1998 | Group COO |
| Frans Florquin | 1947 | Master's Degree in Applied Economic Sciences (K.U.Leuven) | 1972 | CEO Belgium Business Unit |
| Guido Segers | 1950 | Master's Degree in Applied Economic Sciences (K.U.Leuven) | 1974 | CEO Merchant Banking Business Unit |
| Jan Vanhevel | 1948 | Doctorate in Law and Master's Degree in Notarial Sciences (K.U.Leuven) | 1971 | CEO CEER Business Unit |
| Etienne Verwilghen | 1947 | Civil Engineering Degree (UCL) | 1983 | CEO European Private Banking Business Unit |


1 KBC or one of its predecessors (Kredietbank, CERA BANK, ABB, KBL, Gevaert).
2 Between 1980 and 2003, André Bergen worked for Generale Bank (now Fortis Bank) and Agfa-Gevaert, among other companies.
3 The Group Executive Committee's responsibilities are divided up among its members (see table), but this does not detract from their collective responsibility.
Abbreviations: K.U.Leuven: Katholieke Universiteit Leuven (Belgium); UGent: Ghent University (Belgium); UCL: Université catholique de Louvain (Belgium).

# Shareholder information

La Gamme d'Amour, James Ensor

## SHAREHOLDERS, 31-12-2007[1]

| | Number | % |
|---|---|---|
| Ordinary shares | | |
| KBC Ancora | 82 216 380 | 23.2% |
| Cera | 25 286 621 | 7.1% |
| MRBB | 42 562 675 | 12.0% |
| Other core shareholders | 42 715 838 | 12.0% |
| **Subtotal** | **192 781 514** | **54.3%** |
| KBC group companies[2] | 15 398 652 | 4.3% |
| Free float | 146 935 155 | 41.4% |
| **Total** | **355 115 321** | **100.0%** |
| of which entitled to dividend[3] | 342 568 138 | |
| Mandatorily convertible bonds (MCBs)[4] | 2 589 347 | |

1 The figures are based on the value date and most recent disclosures. Taking account of existing shares, mandatorily and non-mandatorily convertible bonds, the maximum number of shares comes to 357 704 668.
2 Does not include shares in the trading books of KBC Securities, Ligeva and KBC Financial Products (included in the free float).
3 For information on how the number of shares entitled to dividend was calculated, see the 'Company annual accounts' section.
4 Number of shares on conversion. More information in this regard is available in the 'Company annual accounts' section.

## FINANCIAL CALENDAR

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

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

## ANALYSES OF THE KBC GROUP

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

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

## KBC SHARE IN 2007

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

| Number of shares at year-end ('000) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Number of shares outstanding | 366 567 | 363 217 | 355 115 |
| Number of shares entitled to dividend | 366 432 | 352 870 | 342 568 |

| Share price (in EUR) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Year high | 79.0 | 93.3 | 106.2 |
| Year low | 56.0 | 76.2 | 85.9 |
| Year average | 66.4 | 85.9 | 95.8 |
| At year-end | 78.7 | 92.9 | 96.2 |

| Equity market capitalisation and volume traded | 2005 | 2006 | 2007 |
|---|---|---|---|
| Equity market capitalisation at year-end (in billions of EUR) | 28.8 | 33.7 | 34.2 |
| Average daily volume traded (number of shares) | 667 299 | 670 652 | 784 602 |
| Average daily volume traded (in millions of EUR) | 43.8 | 57.6 | 75.2 |

| Annual return (including dividends) | KBC Group NV | BEL 20 | DJ EURO STOXX Banks |
|---|---|---|---|
| 1 year (2006-2007) | 7.0% | -3.0% | -5.5% |
| 3 years (2004-2007) | 23.3% | 15.3% | 16.0% |
| 5 years (2002-2007) | 29.8% | 18.9% | 18.3% |

Dividend and dividend policy

At the General Meeting of Shareholders on 24 April 2008, the Board of Directors will propose that a gross dividend of 3.78 euros be paid out per share entitled to dividend. KBC Group NV aims to pay an increasing cash dividend over time. For information on the number of shares entitled to dividend, please see the 'Company annual accounts' section.

| Share buyback programme and changes in the number of KBC Group NV treasury shares | |
|---|---|
| Total number of treasury shares held by KBC Group NV at year-end 2006 | 10 553 055 |
| Treasury shares sold in 2007 for employees exercising options on KBC shares | -1 285 437 |
| Treasury shares cancelled in 2007 under the 1-billion-euro share buyback programme completed in 2006 | -8 229 723 |
| Treasury shares repurchased under the new 3-billion-euro share buyback programme* | 10 436 312 |
| Total number of treasury shares held by KBC Group NV at year-end 2007 | 11 474 207 |

* More information on this share buyback programme is available in the 'Group structure and strategy' section.

**Luc Cool, Director of Investor Relations at KBC:**

**Despite the fact that we were only indirectly – and to a minor extent – caught up in the subprime crisis in the US, it still had an adverse impact on our share price from the summer on. Nevertheless, our share clearly outperformed the DJ EURO STOXX Banks index.**

## CREDIT RATINGS, 14-02-2008

| Fitch | Long-term rating | Outlook | Short-term rating |
|---|---|---|---|
| KBC Bank | AA- | (Stable) | F1+ |
| KBC Insurance (claims-paying ability) | AA | (Stable) | – |
| KBC Group NV | AA- | (Stable) | F1+ |
| **Moody's** | | | |
| KBC Bank | Aa2 | (Negative) | P-1 |
| KBC Group NV | Aa3 | (Negative) | P-1 |
| **Standard & Poor's** | | | |
| KBC Bank | AA- | (Stable) | A1+ |
| KBC Insurance (claims-paying ability) | AA- | (Stable) | – |
| KBC Group NV | A+ | (Stable) | A1 |

Main developments in 2007 and in the opening months of 2008:

- On 11 April 2007, after revising its rating methodology, Moody's assigned a long-term rating of Aa2 and Aa3 to KBC Bank and KBC Group NV, respectively; on 14 February 2008, these ratings were confirmed, but the outlook was changed from 'stable' to 'negative'.

## CONTACT DETAILS

| Investors and analysts | |
|---|---|
| Investor Relations | Luc Cool (Director of Investor Relations), Lucas Albrecht (Financial Communications Officer)<br>Sandor Szabó (Investor Relations Manager), Christel Decorte (Investor Relations Assistant)<br>Ida Markvartova (Investor Relations Analyst), Marina Kanamori (CSR Communications Officer)<br>Ronny Van Ginderdeuren (IR Webmaster) |
| E-mail | investor.relations@kbc.com |
| Website | www.kbc.com |
| Address | KBC Group NV, Investor Relations Office – IRO, 2 Havenlaan, 1080 Brussels, Belgium |

| Press | |
|---|---|
| Press Office | Viviane Huybrecht (Head of Group Communication and the Press Office, Company Spokeswoman) |
| Tel. | + 32 2 429 85 45 |
| E-mail | pressofficekbc@kbc.be |
| Website | www.kbc.com |
| Address | KBC Group NV, Group Communication – GCM, 2 Havenlaan, 1080 Brussels, Belgium |

# Group results for 2007

La Gamme d'Amour, James Ensor

## HIGHLIGHTS

- Net profit for the group amounted to 3 281 million euros, or 2 938 million euros on an underlying basis (i.e. excluding exceptional items), up 15% on the previous year. Return on equity came to 20.6%, or 18.5% on an underlying basis.

- Underlying net profit was up for most business units: Belgium +20%, Central & Eastern Europe and Russia +45%, European Private Banking +7%. Despite the turbulence on the financial markets, underlying net profit for the Merchant Banking Business Unit fell by only 3%.

- Business growth continued: excluding new acquisitions and exchange differences, loans and deposits went up by 15% and 6%, respectively, over the year. Assets under management grew by 11%, while life insurance reserves ended the year 6% higher.

- There was a favourable trend in most underlying income items: net interest income was up by 10%, net fee and commission income by 9%, net realised gains on available-for-sale assets by 41% and dividend income by 15%. However, trading income was down by 21%.

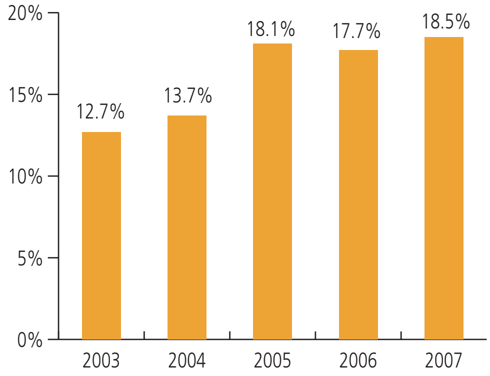
- Cost control remained sound: the cost/income ratio for the group amounted to 56%, or 58% on an underlying basis. The combined ratio for the non-life insurance business came to 96%, 94% disregarding the impact of the Kyrill storm.

- Loan losses were again limited, with a recorded loan loss ratio of 0.13%.

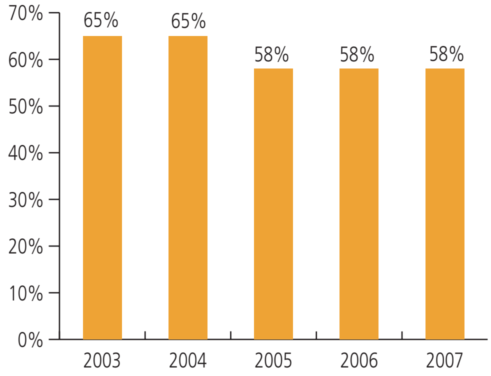
**André Bergen, KBC Group CEO, commented on the 2007 results as follows:**

**KBC performed very well in the 2007 financial year, despite the more unsettled market environment in the second half. We are happy to see that the business trends in Belgium and Central and Eastern Europe were solid. We also reiterate our view that, apart from temporary negative 'mark-to-market' revaluations of investments, the direct impact of the US subprime crisis is expected to be limited.**

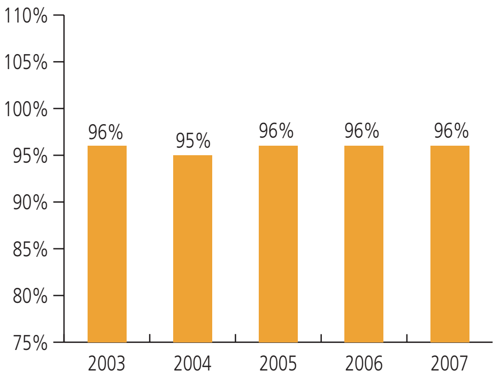
***Return on equity****



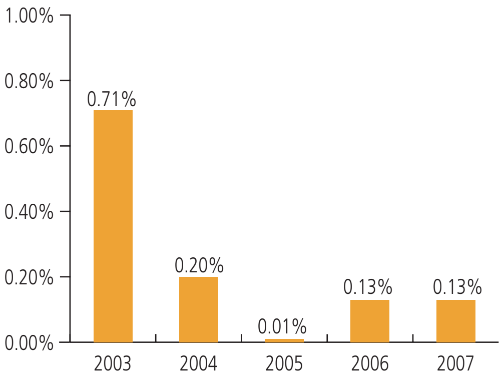

***Cost/income ratio, banking****




***Combined ratio, insurance***




***Loan loss ratio, banking***




** Based on underlying results from 2005 on.*

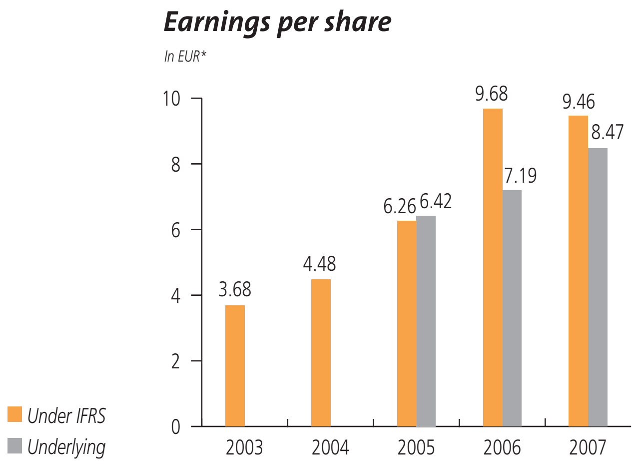
# OVERVIEW

## INCOME STATEMENT, KBC GROUP

| | | IFRS | | Underlying result* |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 4 158 | 4 089 | 4 072 | 4 459 |
| Gross earned premiums, insurance | 3 321 | 3 989 | 3 321 | 3 989 |
| Dividend income | 211 | 256 | 115 | 176 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 370 | 1 642 | 1 350 | 1 071 |
| Net realised gains from available-for-sale assets | 513 | 682 | 326 | 461 |
| Net fee and commission income | 1 865 | 1 993 | 2 008 | 2 140 |
| Other net income | 1 119 | 619 | 452 | 450 |
| **Total income** | **12 556** | **13 271** | **11 644** | **12 745** |
| Operating expenses | -4 925 | -5 219 | -4 976 | -5 154 |
| Impairment | -175 | -267 | -175 | -267 |
| on loans and receivables | -177 | -185 | -177 | -185 |
| on available-for-sale assets | -6 | -75 | -6 | -75 |
| Gross technical charges, insurance | -2 843 | -3 404 | -2 843 | -3 404 |
| Ceded reinsurance result | -63 | -64 | -63 | -64 |
| Share in results of associated companies | 45 | 56 | 45 | 56 |
| **Profit before tax** | **4 595** | **4 373** | **3 632** | **3 911** |
| Income tax expense | -1 002 | -970 | -931 | -851 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **3 593** | **3 403** | **2 701** | **3 060** |
| attributable to minority interests | 163 | 123 | 153 | 123 |
| **attributable to equity holders of the parent** | **3 430** | **3 281** | **2 548** | **2 938** |
| Risk-weighted assets, banking (period-end) (Basel I) | 128 968 | 154 054 | 128 968 | 154 054 |
| Capital (period-end) | 17 219 | 17 348 | 17 219 | 17 348 |
| Return on equity (ROE) | 24% | 21% | 18% | 18% |
| Cost/income ratio, banking | 53% | 56% | 58% | 58% |
| Combined ratio, non-life insurance | 96% | 96% | 96% | 96% |
| Loan loss ratio, banking | 0.13% | 0.13% | 0.13% | 0.13% |

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

* More information on how the underlying figures are calculated appears below.




* 2003: KBC Bank and Insurance Holding Company and B-GAAP; post-2003: KBC Group NV and IFRS.

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

To provide a better insight into the underlying performance, KBC has supplemented the IFRS information with information relating to the 'underlying result'. This information is not subject to review by the external auditor. The adjustments compared to the IFRS figures relate to the income generated by market activities (investment banking activities, including currency dealing, securities trading, corporate finance, private equity business and derivatives trading), the treatment of certain ALM hedging instruments and the elimination of non-recurring items:

- In the IFRS figures, for instance, income from market activities is divided up among different components: realised and unrealised capital gains appear under 'Net (un)realised gains from financial instruments at fair value through profit or loss' ('Net gains from financial instruments at fair value'), whereas the funding costs and the fee and commission expense relating to this income appear under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the amounts appearing under 'Dividend income', 'Net realised gains from available-for-sale assets' and 'Other net income' also relates to market activities.
  In the underlying figures, all market-activity-related components (realised and unrealised capital gains, funding costs, fee and commission expense, dividends, etc.) have been grouped together under 'Net gains from financial instruments at fair value'.
- In the IFRS figures, many of the ALM hedging instruments (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently, interest relating to these instruments appears under 'Net gains from financial instruments at fair value', whereas interest relating to the underlying asset appears under 'Net interest income'. Interest on the relevant ALM hedging instruments has, therefore, been moved to 'Net interest income' in the underlying figures.

- Under IFRS, changes in the fair value of the above ALM hedging instruments appear under 'Net gains from financial instruments at fair value', whereas most underlying assets are not recognised at fair value. These fair value changes are eliminated in the underlying figures (see table).

- Lastly, the underlying figures do not take account of any exceptional items (i.e. items that do not occur regularly in the normal course of business). An overview is given in the table.

**Herman Agneessens, KBC Group CFRO:**

**IFRS figures can be very volatile, which is not necessarily a reflection of the quality of the business. Consequently, we want the market to the see underlying performance and have therefore been providing these underlying figures alongside the IFRS figures for the past few years.**

## RECONCILIATION OF PROFIT ACCORDING TO IFRS AND UNDERLYING PROFIT

| In millions of EUR | Business Unit | Heading in the income statement | 2006 | 2007 |
|---|---|---|---|---|
| Profit after tax, attributable to equity holders of the parent (IFRS) | | | 3 430 | 3 281 |
| Fair value changes in ALM hedging instruments | Various | Net (un)realised gains from financial instruments at fair value | 81 | 177 |
| Sale of assets by (former) Gevaert | Group Centre | Net realised gains from available-for-sale assets and Other net income | 71 | 0 |
| Sale of shares in technology company | Group Centre | Net realised gains from available-for-sale assets | 66 | 0 |
| Sale of 5.5% holding in Kredyt Bank (Poland) | Group Centre | Net realised gains from available-for-sale assets | 35 | 0 |
| Sale of buildings by ČSOB (Czech Republic) | CEER | Other net income | 29 | 0 |
| Merger of Gevaert and KBC Group NV: overfunding of pension fund | Group Centre | Operating expenses | 56 | 0 |
| Sale of Banco Urquijo (Spain) | European Private Banking | Other net income | 501 | 0 |
| Sale of participating interest in BCC/Banksys (Belgium) | Belgium | Other net income | 60 | -1 |
| Sale of building by WARTA (Poland) | CEER | Other net income | 23 | 0 |
| Sale of Intesa Sanpaolo shares (Italy) | Group Centre | Net realised gains from available-for-sale assets | 0 | 207 |
| Sale of Banca KBL Fumagalli Soldan (Italy) | European Private Banking | Other net income | 0 | 14 |
| Sale of GBC (bank card clearing house in Hungary) | CEER | Other net income | 0 | 35 |
| Change in staff hospitalisation insurance (Belgium) | Group Centre | Operating expenses | 0 | -64 |
| Other | – | – | 26 | 43 |
| Taxes and minority interests relating to the above exceptional items | – | Income tax expense and Profit after tax, attributable to minority interests | -66 | -67 |
| Profit after tax, attributable to equity holders of the parent, (underlying) | – | – | 2 548 | 2 938 |

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

The main changes to the scope of consolidation in 2007 relate to the sale of Banco Urquijo (Spain; excluded from the results since 1 July 2006) and the acquisition of Absolut Bank (Russia; included in the results since 1 July 2007), of DZI Insurance (Bulgaria; included in the results since 1 October 2007) and of Economic and Investment Bank (Bulgaria; included in the results only from 2008, but entered on the balance sheet as at the end of 2007). A more detailed overview of the changes to the scope of consolidation is given in Note 41 in the 'Consolidated annual accounts' section. The net impact of all these changes on the net profit of the group was negligible in 2007.

The overall impact of fluctuations in the exchange rates of the main non-euro currencies was limited, as they were largely offset by using macrohedging instruments.

Earnings per share and equity per share at 31 December 2007 were calculated on the basis of 346.8 (period average) and 342.3 (at the end of the period) million shares, respectively. For this purpose, the number of mandatorily convertible bonds was added to the number of ordinary shares, while the number of treasury shares held was deducted. On the other hand, diluted earnings per share were calculated on the basis of 348.4 million shares (period average). In this case, the number of outstanding share options was included.

## ANALYSIS OF TOTAL INCOME

### TOTAL INCOME, KBC GROUP

| | | IFRS | Underlying result | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 4 158 | 4 089 | 4 072 | 4 459 |
| Gross earned premiums, insurance | 3 321 | 3 989 | 3 321 | 3 989 |
| Non-life | 1 748 | 1 826 | 1 748 | 1 826 |
| Life | 1 572 | 2 163 | 1 572 | 2 163 |
| Dividend income | 211 | 256 | 115 | 176 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 370 | 1 642 | 1 350 | 1 071 |
| Net realised gains from available-for-sale assets | 513 | 682 | 326 | 461 |
| Net fee and commission income | 1 865 | 1 993 | 2 008 | 2 140 |
| Banking (including holding company activities) | 2 125 | 2 363 | 2 269 | 2 510 |
| Insurance | -260 | -370 | -260 | -370 |
| Other net income | 1 119 | 619 | 452 | 450 |
| **Total income** | **12 556** | **13 271** | **11 644** | **12 745** |
| Belgium Business Unit | 5 480 | 6 406 | 5 361 | 6 271 |
| CEER Business Unit | 2 746 | 3 001 | 2 696 | 2 921 |
| Merchant Banking Business Unit | 2 758 | 2 736 | 2 752 | 2 740 |
| European Private Banking Business Unit | 1 331 | 838 | 821 | 822 |
| Group Centre | 241 | 290 | 13 | -9 |

Net interest income came to 4 089 million euros in 2007. On an underlying basis, the figure was 4 459 million euros, a rise of nearly 10% on the previous year. This increase is partly thanks to the higher volume of loans and deposits in the group. In 2007, loans and deposits grew on an organic basis (i.e. excluding acquisitions and exchange differences) by 15% and 6%, respectively. The increase in the Central & Eastern Europe and Russia (CEER) business unit was particularly striking (organic growth of 23% in loans and 11% in deposits). On the other hand, Belgium was negatively affected by the shift from savings accounts to other products such as investment funds (where the income appears in other income statement items) and time deposits (which result in a lower margin for the group). Just as in 2006, net interest income was again adversely affected (by roughly 1 percentage point) by repurchases of treasury shares. The (underlying) net interest margin for the banking activities of the group as a whole widened by three basis points to 1.72%.

Gross earned premiums in non-life insurance came to 1 826 million euros, up 4% year-on-year, increasing both in Belgium (+6%) and in Central and Eastern Europe (+3%).
Reported premium income in life insurance (2 163 million euros) does not include certain types of life product in compliance with IFRS (mostly unit-linked products). If the premium income from such products is included, the premium income for life insurance amounted to 3.4 billion euros in 2007 (2.2 billion euros for non-linked products and 1.2 billion euros for unit-linked products), down 18% on 2006. In 2007, the life reserves grew by 6% compared with the end of 2006 (+5% in Belgium, organic growth of +17% in Central and Eastern Europe, and +9% in the European Private Banking Business Unit).

Dividend income amounted to 256 million euros, or 176 million euros on an underlying basis. The underlying figure is 15% higher year-on-year, mainly owing to a higher average dividend yield. For this calculation, substitute-dividend income related to securities lending (40 million euros in 2006, 2 million euros in 2007) that is recognised under net fee and provision income was again included under dividend income.

Net (un)realised gains from financial instruments at fair value through profit or loss (trading profit) came to 1 642 million euros in 2007, compared with 1 370 million euros in 2006.

If the fair-value adjustments (81 million euros in 2006, 177 million euros in 2007) of ALM hedging instruments – whose underlying is not measured at fair value under IFRS – are excluded, and all trading-related income (interest, dividends, etc.) and expenses (e.g., fees and commissions paid), recorded under IFRS in various other income headings, are included in trading profit, this figure (on an underlying basis) amounts to 1 071 million euros. That is 21% less than the previous year, partly due to the turbulence on the financial markets in the second half of the year – which put pressure on the results of certain of the group's capital market activities – including the lower market value of the CDOs in the group's portfolios consequent on the mortgage crisis in the US (-165 million euros before tax and -109 million euros after tax).

Net realised gains from available-for-sale assets came to 682 million euros in 2007, 221 million euros of which is classed as exceptional (relating primarily to the 207-million-euro capital gain on the sale of the holding in Intesa Sanpaolo). Consequently, excluding exceptional items, the underlying net realised gain from available-for-sale assets was some 461 million euros, up 135 million euros year-on-year due to, among other things, the higher realised gains generated by the sale of shares held by the insurer (partly to avoid exceeding the equity exposure limits and partly consequent on corporate actions such as the acquisition of ABN Amro) which more than offset the loss on the sale of a bond portfolio (held by the bank).

Net fee and commission income amounted to 1 993 million euros. On an underlying basis and excluding dividend income related to securities lending (see 'dividend income'), this figure is up 9% on 2006. The increase came to 7% for the Belgium Business Unit, 38% for the Merchant Banking Business Unit and 5% for the European Private Banking Business Unit, while, on an organic basis, net fee and commission income for the CEER Business Unit (where the higher fee and commission income from banking activities was offset by the higher fees and commissions paid owing to the growth in insurance activities) remained more or less unchanged. The upward trend in net fee and provision income was driven by a number of factors, including the continuing buoyant sales of investment products and services and the robust performance of the group's stock brokerage and corporate finance activities. In 2007, the group's assets under management went up by no less than 11%, thanks entirely to new inflows.

Other net income amounted to 619 million euros, compared with 1 119 million euros in 2006. The main items classed as exceptional in 2006 were the 501-million-euro capital gain on the sale of Banco Urquijo, the 52-million-euro gain on the sale of buildings in the Czech Republic and Poland, and the 60-million-euro gain on the sale of the participating interest in BCC/Banksys. In 2007, exceptional items included the 35-million-euro capital gain on the sale of a Hungarian bank card clearing house and the 14-million-euro gain on the sale of Banca KBL Fumagalli Soldan. Excluding these exceptional items, underlying other net income amounted to 452 million euros in 2006 and 450 million euros in 2007. The 2007 figure includes a refund of 44 million euros from the Belgian deposit protection scheme.

## ANALYSIS OF OPERATING EXPENSES

### OPERATING EXPENSES, KBC GROUP

| | | IFRS | Underlying result | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Staff expenses | -2 970 | -3 148 | -3 021 | -3 084 |
| General administrative expenses | -1 631 | -1 740 | -1 631 | -1 740 |
| Depreciation and amortisation of fixed assets | -359 | -361 | -359 | -361 |
| Provisions for risks and charges | 36 | 31 | 36 | 31 |
| **Total operating expenses** | **-4 925** | **-5 219** | **-4 976** | **-5 154** |
| Belgium Business Unit | -1 824 | -1 849 | -1 824 | -1 849 |
| CEER Business Unit | -1 338 | -1 490 | -1 338 | -1 490 |
| Merchant Banking Business Unit | -1 234 | -1 313 | -1 234 | -1 313 |
| European Private Banking Business Unit | -542 | -487 | -537 | -487 |
| Group Centre | 14 | -80 | -42 | -15 |

Operating expenses for 2007 were around 6% higher than the year-earlier figure, although on an underlying basis (i.e. excluding exceptional items; in 2006, the main exceptional item had been the 56-million-euro positive impact of the overfunding of the Gevaert pension fund, and in 2007, the 64-million-euro negative impact from the change in staff hospitalisation insurance), the increase was less than 4%. Apart from the normal cost inflation, factors boosting the cost level include the impact of new acquisitions and fluctuations in exchange rates (discounting these last two items, the increase comes to just 2%). The underlying cost increase came to 1% for the Belgium Business Unit, to 4% for the CEER Business Unit (disregarding the impact of exchange rate fluctuations and new acquisitions), and to 6% for the Merchant Banking Business Unit, while costs remained more or less unchanged for the European Private Banking Business Unit.

In 2007, the banking activities recorded a cost/income ratio of 56% (58% on an underlying basis, roughly the same level as in 2006). The underlying cost/income ratio stood at 59% for the Belgium Business Unit, at 63% for the CEER Business Unit, at 53% for the Merchant Banking Business Unit, and at 65% for the European Private Banking Business Unit.

## ANALYSIS OF IMPAIRMENT

### IMPAIRMENT, KBC GROUP

| In millions of EUR | IFRS 2006 | IFRS 2007 | Underlying result 2006 | Underlying result 2007 |
|---|---|---|---|---|
| Impairment on loans and receivables | -177 | -185 | -177 | -185 |
| Impairment on available-for-sale assets | -6 | -75 | -6 | -75 |
| Impairment on goodwill | -1 | 0 | -1 | 0 |
| Impairment on other assets | 9 | -7 | 9 | -7 |
| **Total impairment** | **-175** | **-267** | **-175** | **-267** |
| Belgium Business Unit | -42 | -80 | -42 | -80 |
| CEER Business Unit | -137 | -91 | -137 | -91 |
| Merchant Banking Business Unit | 2 | -55 | 2 | -55 |
| European Private Banking Business Unit | 4 | -39 | 4 | -39 |
| Group Centre | -1 | -2 | -1 | -2 |

In 2007, impairment on loans and receivables amounted to 185 million euros, compared with 177 million euros the previous year. The 2007 figure was favourably influenced (by 27 million euros) by a change in the method of calculating portfolio-based impairment. The loan-loss ratio for the whole group amounted to 0.13%, the same as a year earlier. This ratio came to 0.13% for the Belgium Business Unit (0.07% in 2006), to 0.26% for the CEER Business Unit (0.58% in 2006), to 0.02% for the Merchant Banking Business Unit (-0.01%, i.e. a net reversal, in 2006) and to 1.03% (mainly consequent on loans to professional counterparties) for the European Private Banking Business Unit (-0.10% in 2006).

The non-performing-loan ratio amounted to 1.5%, an improvement on the end of 2006 (1.6%). The percentage of cover for non-performing loans afforded by (all) loan-loss provisions came to 94%.

Impairment on available-for-sale assets came to 75 million euros (compared with 6 million euros in 2006). This was mainly owing to the deterioration in the stock markets in the second half of 2007. In both 2006 and 2007, impairment losses on goodwill and on other assets were negligible (7 million euros in 2007, compared with a net reversal of 8 million euros in 2006).

## ANALYSIS OF THE TECHNICAL RESULTS FOR THE INSURANCE BUSINESS

### GROSS TECHNICAL CHARGES AND CEDED REINSURANCE RESULT

| | | IFRS | | Underlying result |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Gross technical charges, insurance | -2 843 | -3 404 | -2 843 | -3 404 |
| Non-life | -1 045 | -1 085 | -1 045 | -1 085 |
| Life | -1 798 | -2 319 | -1 798 | -2 319 |
| Ceded reinsurance result | -63 | -64 | -63 | -64 |

In 2007, gross technical charges for the insurance business came to 3 404 million euros, compared with 2 843 million euros a year earlier. Non-life insurance accounted for 1 085 million euros of the total, life insurance for 2 319 million euros. As is the case for gross earned premiums, the figures for life insurance exclude certain types of product (primarily unit-linked products).

In non-life insurance, a solid technical result was recorded in all business units, with a combined ratio for the whole group of 96%, the same as in 2006. Excluding the first-quarter impact of the Kyrill storm, the combined ratio for the group was even just below 94% in 2007. As a matter of fact, this ratio (including Kyrill) remained below 100% for all business units (98% for the Belgium Business Unit, 95% for the CEER Business Unit and 91% for the Merchant Banking Business Unit. At 176%, the claims reserve ratio remained unchanged in 2007.

The ceded reinsurance result stood at a negative 64 million euros, in line with a year earlier.

## ANALYSIS OF THE OTHER COMPONENTS OF THE RESULTS

### OTHER COMPONENTS OF THE RESULTS

| | | IFRS | | Underlying result |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Share in results of associated companies | 45 | 56 | 45 | 56 |
| Income tax expense | -1 002 | -970 | -931 | -851 |
| Profit after tax, attributable to minority interests | 163 | 123 | 153 | 123 |

The share in the results of associated companies came to 56 million euros in 2007, and related (just as in 2006) primarily to the contribution (via the equity method) of the 34% minority interest in Nova Ljubljanska banka in Slovenia.

Income tax expense amounted to 970 million euros. Profit after tax attributable to minority interests totalled 123 million euros, less than the previous year, mainly because of the buy-out of minority interests in ČSOB (Czech Republic).

## BREAKDOWN OF PROFIT BY BUSINESS UNIT AND ACCORDING TO THE GROUP'S LEGAL STRUCTURE

### PROFIT AFTER TAX, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

| | IFRS | | Underlying result | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Breakdown by business unit | | | | |
| Belgium Business Unit | 1 202 | 1 402 | 1 104 | 1 321 |
| CEER Business Unit | 464 | 664 | 426 | 618 |
| Merchant Banking Business Unit | 872 | 833 | 871 | 843 |
| European Private Banking Business Unit | 678 | 210 | 181 | 194 |
| Group Centre | 214 | 172 | -33 | -38 |
| **Profit after tax, attributable to equity holders of the parent** | **3 430** | **3 281** | **2 548** | **2 938** |
| Breakdown according to the group's legal structure | | | | |
| Banking | 2 201 | 2 364 | 1 930 | 2 053 |
| Insurance | 535 | 741 | 515 | 750 |
| European Private Banking | 668 | 205 | 170 | 189 |
| Holding-company activities | 27 | -29 | -67 | -55 |
| **Profit after tax, attributable to equity holders of the parent** | **3 430** | **3 281** | **2 548** | **2 938** |

The results of the Belgium, CEER, Merchant Banking and European Private Banking business units are detailed in the ensuing sections. The results of the Shared Services & Operations Business Unit are allocated virtually entirely to the other business units. The results of the Group Centre, which include the holding company's debt-service charges and certain charges not allocated to other business units, appear in the summary table and are given in more detail in the *Quarterly Report – KBC Group*, *4Q 2007*, which can be downloaded from the KBC website (www.kbc.com).

A complete breakdown of the income statement according to the group's legal structure is given under 'Notes to segment reporting' in the 'Consolidated annual accounts' section.

## BALANCE SHEET, SOLVENCY AND ASSETS UNDER MANAGEMENT

### SELECTED BALANCE-SHEET AND SOLVENCY ITEMS, KBC GROUP

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| Total assets | 325 400 | 355 597 |
| Loans and advances to customers* | 127 152 | 147 051 |
| Securities* | 111 959 | 105 023 |
| Deposits from customers and debt securities* | 179 488 | 192 135 |
| Gross technical provisions and liabilities under investment contracts, insurance | 25 121 | 26 833 |
| Parent shareholders' equity | 17 219 | 17 348 |
| Equity per share (in EUR) | 49.2 | 50.7 |
| Tier-1 ratio, banking (KBC Bank and KBL EPB, Basel I calculation method) | 8.7% | 8.1% |
| Tier-1 ratio, banking (KBC Bank and KBL EPB, Basel II calculation method) | – | 8.7% |
| Solvency ratio, insurance | 374% | 265% |

* These figures differ slightly from those given in the previous year's annual report because KBC switched to a different balance sheet presentation in 2007, so 2006 figures have been adjusted retroactively.

At the end of 2007, KBC group's total assets came to 356 billion euros, 9% higher than a year earlier. As in 2006, loans and advances to customers (147 billion euros at the end of 2007) and securities (105 billion euros) were the main products on the asset side. On a like-for-like basis, loans and advances to customers (not including the volume of reverse repurchase agreements, exchange rate movements and new acquisitions) were up 15% on the end of 2006. The increase was most marked in Central & Eastern Europe and Russia (+23%). At group level, the main credit products were term loans (73 billion euros) and home loans (47 billion euros, organic growth of 16% compared with a year earlier). The securities portfolio (105 billion euros) contains both held-for-trading instruments and securities in the investment portfolios of the bank and the insurer. At the end of 2007, the insurer's investment portfolio (mostly securities) amounted to approximately 30 billion euros, up 7% on the year-earlier figure. 30% of the portfolio was accounted for by investments made for unit-linked insurance products, 48% by bonds and other fixed-income securities, 14% by shares, 6% by loans and 1% by real estate. For more information, see the 'Value and risk management' section under the heading 'Asset/Liability Management'.

The main product on the liabilities side was again deposits from customers and debt securities, which came to 192 billion euros at the end of 2007. On a comparable basis and excluding the volume of repurchase agreements, this represents an increase of 6% on the previous year. Time deposits (63 billion euros), demand deposits (42 billion euros) and savings deposits (27 billion euros, down 9% on 2006) were the main deposit products. Technical provisions and liabilities under the insurer's investment contracts totalled 27 billion euros, which represents an increase of 7% on the previous year. Most of this figure (23 billion euros) was accounted for by the life insurance reserves, which, on a comparable basis, were up by 6% in 2007.

For customers, investment funds – which do not appear on the balance sheet – are an alternative to, for instance, traditional bank deposits or life insurance products, which do appear on the balance sheet. At the end of 2007, investment funds managed by KBC for retail customers came to 93 billion euros. Total assets under management (which, aside from investment funds, also include the assets managed for private and institutional investors) amounted to 231 billion euros, representing organic growth of 11% compared with the previous year (see table for breakdown).

On 31 December 2007, parent shareholders' equity came to 17.3 billion euros. In accordance with IFRS, this amount includes the unrealised gains and losses on available-for-sale assets (0.8 billion euros at year-end). The main changes in equity in 2007 relate to the inclusion of net profit for the financial year (+3.3 billion euros), the dividends for 2006 that were paid out in 2007 (-1.2 billion euros), the change in the revaluation reserve for available-for-sale assets

## ASSETS UNDER MANAGEMENT, KBC GROUP

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| By business unit | | |
| Belgium | 142 866 | 161 680 |
| CEER | 9 979 | 12 999 |
| Merchant Banking | 737 | 2 249 |
| European Private Banking | 54 978 | 54 462 |
| Total | 208 560 | 231 390 |
| By product or service | | |
| Investment funds for private individuals | 85 184 | 92 572 |
| Assets managed for private individuals | 74 485 | 81 874 |
| Assets managed for institutional investors | 33 470 | 39 778 |
| Group assets managed by KBC Asset Management | 15 420 | 17 165 |
| Total | 208 560 | 231 390 |

(-1.2 billion euros) and the treasury shares repurchased under the current share buyback programme (-1.0 billion euros; treasury shares are deducted from equity under IFRS).

Solvency remained sound. At the end of 2007, the tier-1 ratio for the banking activities came to 8.1% (Basel 1) and 8.7% (Basel II), and the solvency ratio for the insurance activities came to 265%.

# Belgium Business Unit

Group Executive Committee
Group-level support services

Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit

Frans Florquin, CEO of the Belgium Business Unit

ADD, CBC Banque, Centea, Fidea, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance, VTB-VAB

## DESCRIPTION

This business unit brings together all the group's banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance and the activities of a number of Belgian subsidiaries. A list of the main group companies belonging to this unit and its position in the group structure are given in the diagram.

## 2007 HIGHLIGHTS

- This business unit's contribution to underlying group profit went up by 20% to 1 321 million euros, thanks in part to higher net fee and commission income, capital gains on the sale of shares, a minor increase in expenses and the continuing very limited level of loan losses.
- Underlying return on allocated capital came to 32%.
- Further growth was posted in lending (+14%), deposit-taking (+9%) and life insurance reserves (+5%), while assets under management reached 162 billion euros (+13%).
- Bancassurance co-operation was again a success, with almost 80% of life insurance premiums and 15% of non-life insurance premiums already being generated through the bank channel.
- Customer satisfaction with KBC Bank branches rose for the fourth year running.
- The share of the market in investment funds continued to grow, reaching 35%.

## CONTRIBUTION TO GROUP RESULTS

### RESULTS, BELGIUM BUSINESS UNIT

| | | IFRS | | Underlying result* |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 2 078 | 1 996 | 1 928 | 1 951 |
| Gross earned premiums, insurance | 2 036 | 2 678 | 2 036 | 2 678 |
| Dividend income | 63 | 129 | 63 | 129 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | -49 | 120 | 43 | 29 |
| Net realised gains from available-for-sale assets | 249 | 369 | 249 | 369 |
| Net fee and commission income | 895 | 915 | 895 | 915 |
| Other net income | 208 | 198 | 148 | 199 |
| **Total income** | **5 480** | **6 406** | **5 361** | **6 271** |
| Operating expenses | -1 824 | -1 849 | -1 824 | -1 849 |
| Impairment | -42 | -80 | -42 | -80 |
| on loans and receivables | -32 | -59 | -32 | -59 |
| on available-for-sale assets | -10 | -21 | -10 | -21 |
| Gross technical charges, insurance | -1 946 | -2 618 | -1 946 | -2 618 |
| Ceded reinsurance result | -13 | -13 | -13 | -13 |
| Share in results of associated companies | 5 | 0 | 5 | 0 |
| **Profit before tax** | **1 659** | **1 846** | **1 541** | **1 711** |
| Income tax expense | -454 | -440 | -434 | -387 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **1 205** | **1 406** | **1 107** | **1 325** |
| attributable to minority interests | 3 | 4 | 3 | 4 |
| **attributable to equity holders of the parent** | **1 202** | **1 402** | **1 104** | **1 321** |
| Banking | 810 | 789 | 712 | 703 |
| Insurance | 392 | 614 | 392 | 617 |
| Risk-weighted assets, banking (period-end) | 39 858 | 42 360 | 39 858 | 42 360 |
| Allocated capital (period-end) | 4 027 | 4 361 | 4 027 | 4 361 |
| Return on allocated capital | 31% | 34% | 29% | 32% |
| Cost/income ratio, banking | 56% | 56% | 58% | 59% |
| Combined ratio, non-life insurance | 95% | 98% | 95% | 98% |

* For information on how the underlying figures are calculated, see ‘Group results for 2007’.

In 2007, the Belgium Business Unit contributed 1 402 million euros (43%) to the group result, a 17% increase on the year-earlier figure. Disregarding fair value changes in certain derivatives and exceptional items (the main 2006 item had been the 60-million-euro pre-tax gain on the sale of the stake in Banksys and BCC; there were no major exceptional items in 2007), underlying net profit for the Belgium Business Unit came to 1 321 million euros (45% of underlying group profit), up 20% on the previous year.

In 2007, 25% (or 4.4 billion euros) of group capital was allocated to this business unit, which recorded a return on allocated capital of 34% (based on net profit according to IFRS) or 32% (based on underlying net profit).

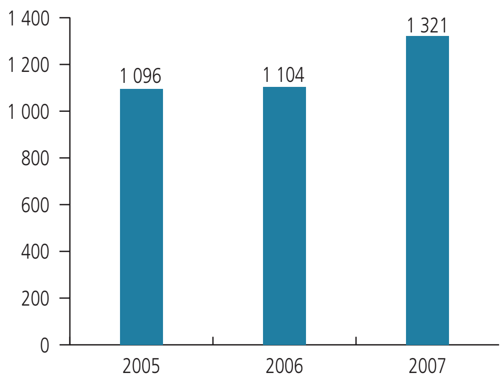
The following analysis is based on the underlying result.

Underlying net profit generated by the banking activities fell by 1% to 703 million euros, while this business unit's insurance activities yielded a net profit contribution of 617 million euros, up 57% on the year-earlier figure. However, the breakdown of profit between the banking and insurance activities was distorted in 2007 because a relatively large amount in losses realised on the sale of a bond portfolio held by the bank was offset by a relatively large gain realised on the sale of shares held by the insurer.

In 2007, the net interest income of the Belgium Business Unit amounted to 1 951 million euros, broadly the same (+1%) as the previous year. Net interest income benefited from the mounting volume of loans and deposits, among other things, which grew by 14% and 9%, respectively, compared with 2006. There was, however, a shift in deposit products from savings accounts (down 9%) to time deposits, which generate lower margins for the group, and other products (e.g., investment funds) that generate income which is not recognised under net interest income. Moreover, the 25-basis-point increase in the base rate paid on savings accounts since July 2007 also adversely affected net interest income (-34 million euros). The year-on-year comparison is negatively affected too by the current share buyback programme, which has surplus capital from Belgian group companies (among others) being channelled upstream to the parent company, resulting in a lower net interest result for the Belgium Business Unit. However, the negative effect of the share buyback programme was partly offset by the

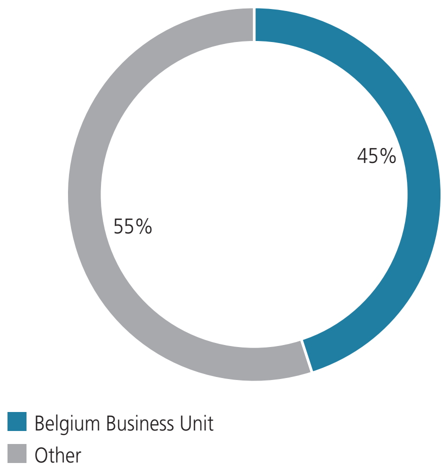
### Belgium Business Unit: underlying net profit

*In millions of EUR*




### Belgium Business Unit: share

*In underlying net profit of the group (2007)*



capital increase by KBC Group NV in KBC Bank (positive impact on the net interest income of this business unit). The total net interest margin for the business unit narrowed from 1.88% in 2006 to 1.76% in 2007.

Gross earned insurance premiums totalled 2 678 million euros, with non-life insurance accounting for 882 million euros (+6% compared with 2006) of this figure. In the life insurance business, premium income came to 1 796 million euros but, as required under IFRS, this figure does not reflect investment contracts without a discretionary participation feature (DPF) (these can be more or less equated to unit-linked life insurance policies). For these products, in keeping with IFRS, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). If the premium income from such products is included, total premium income for the life insurance activities amounted to 2.6 billion euros, representing a decline of 18% on 2006. This was fully accounted for by unit-linked products (-59% to 0.8 billion euros), as guaranteed-rate products experienced brisk growth (+49% to 1.8 billion euros). The drop in sales of investment-type insurance since 2005 is due primarily to the tax on these insurance products that was introduced in 2006 in Belgium. At year-end 2007, the outstanding life reserves totalled 19.6 billion euros, up 5% on the year-earlier figure.

Net fee and commission income (915 million euros) accounted for 15% of total income, and was up by 7% on 2006 (in this calculation, 2006 substitute-dividend income related to securities lending was again included under dividend income), thanks largely to successful sales of investment funds. These sales boosted assets under management in this business unit from 143 billion euros at year-end 2006 to 162 billion euros a year later. The margin on sales of unit-linked insurance products (recognised under 'Net fee and commission income') narrowed by 31 million euros as a result of the drop in sales of this type of product in 2007.

Net realised gains from available-for-sale assets came to 369 million euros, a 120-million-euro increase on the previous year. This can be attributed mainly to the capital gain on the sale of shares from the insurer's investment portfolio that more than offset the 73-million-euro loss allocated to the business unit on the sale of a bond portfolio held by the bank.

Most other components of income also went up compared with the previous year, with dividend income (recalculated for 2006 to include dividends related to securities lending) rising by 28 million euros (in part owing to a higher average dividend yield) and other net income going up by 51 million euros (primarily as a result of a refund from the deposit protection scheme of 44 million euros). Net (un)realised gains from financial instruments at fair value through profit or loss went down by 14 million euros (due in part to the 33-million-euro downward adjustment in the market value of CDOs).

The operating expenses of the Belgium Business Unit (1 849 million euros) were kept remarkably well under control, increasing by a mere 1% on the previous year. The cost/income ratio for the banking activities of this business unit came to 59%. The combined ratio for the non-life insurance activities amounted to 98%, adversely affected by the first-quarter impact of the Kyrill storm (without Kyrill, the combined ratio would have come to 95%).

Lastly, impairment recorded on loans and receivables remained limited to 59 million euros, 27 million euros more than in 2006, but virtually entirely down to a change in the method of calculating portfolio-based impairment. Consequently, the loan loss ratio was again extremely favourable at 0.13% (0.07% the previous year).

## NETWORK AND MAIN DEVELOPMENTS

### FACTS AND FIGURES, BELGIUM BUSINESS UNIT

| Customers (estimates) | 2006 | 2007 |
|---|---|---|
| Bank customers (in millions) | 3.4 | 3.4 |
| Insurance customers (in millions) | 1.4 | 1.4 |
| **Network** | | |
| Retail bank branches, KBC Bank and CBC Banque* | 869 | 865 |
| Private banking branches, KBC Bank and CBC Banque | 25 | 25 |
| Bank agencies, Centea | 708 | 712 |
| Insurance agencies, KBC Insurance | 566 | 552 |
| **Assets under management (in millions of EUR)** | | |
| Investment funds for private individuals | 71 481 | 78 940 |
| Assets managed for private individuals | 36 135 | 40 833 |
| Assets managed for institutional investors | 19 830 | 24 742 |
| Group assets managed by KBC Asset Management | 15 420 | 17 165 |
| Total | 142 866 | 161 680 |
| **Market share (estimates)** | | |
| Loans | 22% | 22% |
| Deposits | 19% | 18% |
| Investment funds | 34% | 35% |
| Life insurance | 15% | 11% |
| Non-life insurance | 9% | 9% |
| **Cross-selling indicators** | | |
| Life insurance sold via the bank channel | 82% | 77% |
| Non-life insurance sold via the bank channel | 12% | 15% |
| **E-payments indicators – Belgium** | | |
| Percentage of payment transactions via electronic channels | 91% | 93% |
| Number of KBC- and CBC-Matic ATMs | 1 240 | 1 277 |
| Number of cash withdrawals at KBC- and CBC-Matic ATMs per month (in millions) | 3.2 | 3.9 |
| Active subscribers to KBC Internet and PC banking facilities | 510 000 | 580 000 |
| **Customer satisfaction** | | |
| Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10) | 69% | 72% |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 53.9 | 58.1 |
| Share of the total loan portfolio | 29% | 28% |

* Excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the Merchant Banking Business Unit section.

## Network

The KBC group serves its retail and private banking customers in Belgium through 890 bank branches (KBC Bank in the Dutch-speaking part of the country and CBC Banque in the French-speaking part), 712 independent bank agents of the savings bank Centea, 552 tied insurance agencies of KBC Insurance, and independent insurance brokers (for Fidea products). Private banking clients can also opt for Puilaetco Dewaay Private Bankers, which is part of the European Private Banking Business Unit.

Additionally, the group offers its services and products through various electronic networks (see below for more information), as well as through call and contact centres. These centres will soon be regrouped and reintegrated, thus enabling them to be developed into true competency centres and fully fledged distribution and service channels.

The group serves some 3.4 million bank customers and around 1.4 million insurance customers in Belgium through its networks.

## Bancassurance co-operation

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

As an alternative to deposits or investment funds, life insurance is, by its nature, extremely suited to the product mix offered by bank branches. The group's bank branches in Belgium have therefore traditionally accounted for the vast majority (around 77% in 2007) of life insurance premium volume.

Needless to say, for non-life insurance, the agents and brokers are still the main distribution channels, accounting for 64% and 21% of premium volume, although the bank network was already generating 15% of non-life insurance premium volume in Belgium in 2007.

## Market position

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

The group puts its share of the Belgian non-life insurance market at 9%, up slightly on 2006. KBC is prominent in virtually all classes of non-life insurance, except for shipping, aviation and transport, and insurance for large industrial sites. The share of the market for the important class of insurance, third-party liability insurance for motor vehicles, is estimated at 11% and for fire and other property damage at 13%.
The estimated share of the Belgian life insurance market is around 11% (calculated on the basis of insurance premiums, hence rather volatile), down on 2006 due primarily to unit-linked life insurance. Moreover, according to KBC, the decline in investment-type insurance is being largely offset by an increase in other types of savings products, such as bank investment funds or deposits, so that its effect on a bancassurer like KBC is very limited.

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

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

## Electronic channels

KBC makes its products and services available not only via an extensive network of branches and agencies, but also through high-performance electronic channels, which are continuously enhanced and upgraded. For example, in 2007, the range of electronic banking and insurance services provided through KBC-Online (KBC's main system in Belgium for online banking and insurance) was expanded to offer customers more detailed account records, a 'remittance folder' facility for sending more than one transfer order to the bank at a time, and new, improved security in the form of a card reader. The success of KBC's online bancassurance systems is reflected in a number of ways, such as in the continuously rising number of users. KBC-Online, CBC-Online and Centea-Online, combined, had more than 580 000 active customers at the end of 2007, 14% more than in the previous year.

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

## Customer satisfaction

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

In addition, the first survey was carried out on the service provided in the KBC Insurance agencies. The results were outstanding: as much as 86% of the customers surveyed gave the insurance agent a score of eight or more out of ten.
But, despite these excellent results, KBC is not planning to rest on its laurels. In 2007, for instance, initiatives were devised regarding the client approach with the aim of further improving the way customers are received in the bank branches, and various resources were developed to support relationship management.

# Objectives and focus for the years ahead

**The Management Committee of the Belgium Business Unit has summarised the objectives for the years ahead as follows:**

**Maintain a sharp focus on customer loyalty and satisfaction.**

**Continue to stimulate the cross-selling of banking and insurance products, among other things, by screening customers' insurance portfolios and using electronic sales channels.**

**Safeguard market share in lending and maintain 'bank of choice' status for investments and asset management.**

**Achieve a return on allocated capital of at least 26%.**

# Central & Eastern Europe and Russia Business Unit

Group Executive Committee
Group-level support services

| Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit |
|---|---|---|---|---|

**Jan Vanhevel, CEO of the CEER Business Unit**

A Banka (Serbia), Absolut Bank (Russia), ČSOB (Czech Republic and Slovakia), ČSOB Pojišt'ovna (Czech Republic), ČSOB Poist'ovňa (Slovakia), DZI Insurance (Bulgaria), Economic and Investment Bank (Bulgaria), K&H Bank (Hungary), K&H Insurance (Hungary), Kredyt Bank (Poland), NLB Life (Slovenia), Nova Ljubljanska banka (NLB) (Slovenia, minority interest), WARTA (Poland)

## DESCRIPTION

The Central & Eastern Europe and Russia (CEER) Business Unit comprises all group banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe and Russia. A list of the main group companies belonging to this unit and its position in the group structure are given in the diagram.

## 2007 HIGHLIGHTS

- This business unit's contribution to underlying group profit rose sharply by 45% to 618 million euros, thanks partly to the increase in net interest income, insurance premiums and net fee and commission income from the banking activities, and to the limited organic increase in costs and lower impairment losses on loans.
- Underlying return on allocated capital came to 24%.
- Robust organic growth was posted in lending (+23%), deposit-taking (+11%) and life insurance reserves (+17%), while assets under management reached 13 billion euros (+27%).
- Considerable acquisition activity took place in 2007: in total, 1.7 billion euros was invested in the region and the targeted operating area was expanded to include Romania, Bulgaria, Serbia and Russia.
- The programme to expand the branch network and improve the insurance distribution networks reached cruising speed.

# CONTRIBUTION TO GROUP RESULTS

## RESULTS, CEER BUSINESS UNIT

| In millions of EUR | 2006 | IFRS 2007 | Underlying result* 2006 | Underlying result* 2007 |
|---|---|---|---|---|
| Net interest income | 989 | 1 228 | 1 001 | 1 237 |
| Gross earned premiums, insurance | 959 | 1 018 | 959 | 1 018 |
| Dividend income | 6 | 6 | 6 | 6 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 247 | 263 | 237 | 208 |
| Net realised gains from available-for-sale assets | 29 | 27 | 29 | 27 |
| Net fee and commission income | 311 | 324 | 311 | 324 |
| Other net income | 206 | 135 | 154 | 100 |
| **Total income** | **2 746** | **3 001** | **2 696** | **2 921** |
| Operating expenses | -1 338 | -1 490 | -1 338 | -1 490 |
| Impairment | -137 | -91 | -137 | -91 |
| on loans and receivables | -146 | -85 | -146 | -85 |
| on available-for-sale assets | 0 | -1 | 0 | -1 |
| Gross technical charges, insurance | -643 | -574 | -643 | -574 |
| Ceded reinsurance result | -43 | -32 | -43 | -32 |
| Share in results of associated companies | 34 | 51 | 34 | 51 |
| **Profit before tax** | **619** | **865** | **569** | **785** |
| Income tax expense | -101 | -173 | -92 | -139 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **518** | **692** | **477** | **646** |
| attributable to minority interests | 54 | 28 | 52 | 28 |
| **attributable to equity holders of the parent** | **464** | **664** | **426** | **618** |
| Banking | 419 | 587 | 401 | 541 |
| Insurance | 45 | 76 | 25 | 76 |
| Risk-weighted assets, banking (period-end) | 23 358 | 31 852 | 23 358 | 31 852 |
| Allocated capital (period-end) | 1 890 | 2 530 | 1 890 | 2 530 |
| Return on allocated capital | 27% | 27% | 25% | 24% |
| Cost/income ratio, banking | 64% | 61% | 65% | 63% |
| Combined ratio, non-life insurance | 99% | 95% | 99% | 95% |

* For information on how the underlying figures are calculated, see 'Group results for 2007'.

## RESULTS OF THE CEER BUSINESS UNIT BY COUNTRY*

| In millions of EUR | IFRS 2006 | IFRS 2007 | Underlying result 2006 | Underlying result 2007 |
|---|---|---|---|---|
| **Profit after tax, attributable to equity holders of the parent** | **464** | **664** | **426** | **618** |
| Czech Republic and Slovakia | 366 | 423 | 346 | 417 |
| Hungary | 58 | 156 | 58 | 127 |
| Poland | 156 | 145 | 136 | 145 |
| Russia (6 months) | – | 12 | – | 12 |
| Other | -116 | -73 | -114 | -83 |

* Full income statements reflecting underlying results for each country are provided in the 'Additional information' section.

In 2007, the CEER Business Unit contributed 664 million euros (20%) to group profit, a 43% increase on the year-earlier figure. Disregarding fair value changes in certain derivatives and exceptional items (the main item in 2006 had been the 52-million-euro pre-tax gain on the sale of buildings owned by ČSOB and WARTA, and in 2007 the main item was the 35-million-euro pre-tax gain on the sale of a stake in a Hungarian clearing house), the underlying net profit of this business unit totalled 618 million euros (21% of underlying group profit), 45% more than in 2006.

In 2007, 15% (or 2.5 billion euros) of group capital was allocated to the CEER Business Unit, around 34% more than in 2006 (mainly on account of the new acquisitions and brisk organic growth in credit volumes – see below). Return on allocated capital came to 27% (based on net profit according to IFRS) or 24% (based on underlying net profit).

The following analysis is based on the underlying result. The new acquisitions (Absolut Bank, A Banka, DZI Insurance) and fluctuations in exchange rates were also disregarded when organic growth was calculated compared with 2006. In 2007, the average rate of the Czech koruna appreciated by 2% against the euro, the Hungarian forint by 5%, the Slovakian koruna by 10% and the Polish zloty by 3%; the total weighted impact came to around 3%. The effect of exchange rate movements in the other currencies in the region was negligible.

Underlying net profit generated by the banking activities came to 541 million euros (401 million euros in 2006), while the insurance activities in Central and Eastern Europe yielded a net profit contribution of 76 million euros (25 million euros in 2006).

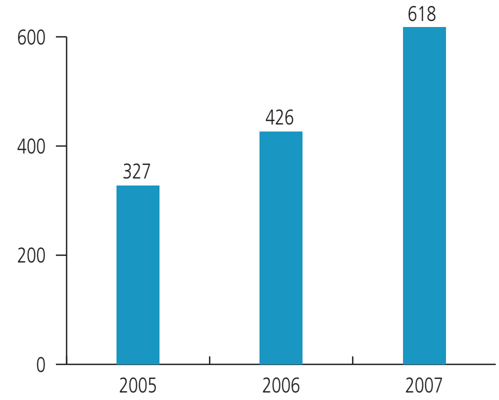
In 2007, net interest income totalled 1 237 million euros, up considerably (16%) on an organic basis on the year-earlier figure primarily as a result of the continued strong volume growth in the region. For instance, lending went up by no less than 23% and deposits by 11% (both figures, as mentioned above, exclude the effect of new acquisitions and exchange rate differences). The average interest margin in the region came to 3.04%, 3 basis points higher than the 2006 figure.

Gross earned insurance premiums amounted to 1 018 million euros. For non-life insurance, the corresponding figure came to 714 million euros (organic growth of 2% compared with 2006), with the bulk being generated in Poland (475 million euros in premium income) and the Czech Republic (128 million euros).
Gross earned life insurance premiums came to 304 million euros, but, as required under IFRS, this figure does not reflect unit-linked life insurance policies. For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). Including the premium income for such products, total premium income for the life insurance activities amounted to some 0.5 billion euros, considerably higher (23% on an organic basis) than a year earlier. Most of the premium income from life insurance was earned in Poland (191 million euros) and in the Czech Republic (195 million euros). At the end of 2007, outstanding life reserves came to 1.5 billion euros, reflecting organic growth of 17% compared with 2006.

Total net fee and commission income amounted to 324 million euros. On an organic basis, net fee and commission income generated by the banking activities (472 million euros) went up by some 25 million euros in 2007, although this was completely cancelled out by the increase in commission paid to insurance agents

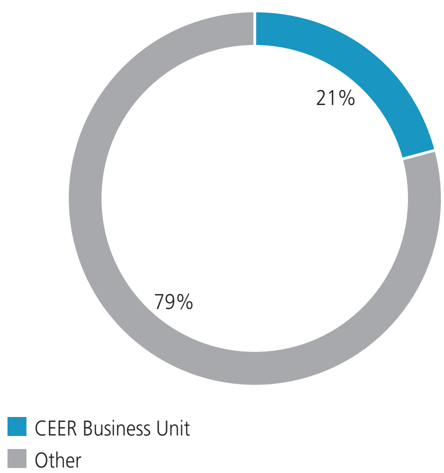
### CEER Business Unit: underlying net profit

*In millions of EUR*




### CEER Business Unit: share

*In underlying net profit of the group (2007)*




due to the aforementioned rise in insurance sales. Assets under management in the business unit reached around 13 billion euros by the end of 2007, again robust year-on-year organic growth (+27%), which is virtually entirely attributable to new inflows.

Net realised gains on available-for-sale assets came to 27 million euros, roughly the same as the previous year. Net (un)realised gains from financial instruments at fair value through profit or loss fell by 29 million euros (due to the 29-million-euro downward adjustment in the market value of CDOs, among other things), dividend income remained stable at 6 million euros, and other net income (excluding exceptional items) was down by 54 million euros (the corresponding 2006 figure had included a 37-million-euro gain on the sale of a portfolio of problem loans in Poland).

Operating expenses for the business unit amounted to 1 490 million euros, an organic increase of barely 4% on the previous year and largely the result of normal inflation. The cost/income ratio for the banking activities of this business unit ended the year at 63%, compared with 65% in 2006. The combined ratio for the non-life insurance activities in Central and Eastern Europe came to 95% (an improvement on the year-earlier figure of 99%), and was, as in Belgium, negatively impacted by the effects of the Kyrill storm in the first quarter of the year (excluding Kyrill, the combined ratio was less than 94%).

Impairment on loans and receivables totalled 85 million euros, 61 million euros less than in 2006, a year that had been negatively impacted by the relatively high impairment losses recorded in Hungary. The 2007 figure includes a reversal of portfolio-based impairment of 21 million euros as a result of a change in the method of calculation. Consequently, the loan loss ratio for Central and Eastern Europe and Russia amounted to 0.26%, compared with 0.58% in 2006. The loan loss ratio came to 0.27% in the Czech Republic and Slovakia (0.36% in 2006), 0.62% in Hungary (1.50% in 2006), 0% in Poland (as in 2006) and 0.21% in Russia.

In 2007, the contribution to the underlying profit of the group made by the Czech Republic and Slovakia came to 417 million euros, by Hungary to 127 million euros, by Poland to 145 million euros and by Russia to 12 million euros (six months). The full income statements reflecting underlying results for each country (calculated on the basis of a 100% stake in the relevant companies) are given in the

## NETWORK AND MAIN DEVELOPMENTS

### FACTS AND FIGURES, CEER BUSINESS UNIT, 31-12-2007

| Customers (estimates) | Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Romania | Serbia | Russia |
|---|---|---|---|---|---|---|---|---|
| Bank customers (in millions) | 3.0 | 0.2 | 0.9 | 1.0 | 0.2 | – | 0.1 | 0.2 |
| Insurance customers (in millions) | 0.8 | 0.2 | 0.5 | 2.0 | 0.8 | – | – | – |
| Amount, acquisitions | | | | | | | | |
| Total (in billions of EUR) | 2.0 | 0.03[2] | 0.9 | 1.1 | 0.6 | 0.1 | 0.1 | 0.7 |
| Network | | | | | | | | |
| Bank branches[1] | 251 | 114 | 223 | 393 | 126 | – | 45 | 71 |
| Tied insurance agents | 1 238 | 501 | 542 | 3 287 | 9 005 | – | – | – |
| Assets under management | | | | | | | | |
| Total (in billions of EUR) | 6.0 | 0.8 | 2.6 | 2.8 | – | – | – | – |
| Market share (estimate) | | | | | | | | |
| Traditional bank products (loans and deposits) | 21% | 8% | 10% | 4% | 3% | – | 0.7% | 0.5% |
| Investment funds | 28% | 12% | 17% | 4% | – | – | – | – |
| Life insurance | 10% | 5% | 5% | 2% | 18% | – | – | – |
| Non-life insurance | 5% | 3% | 4% | 10% | 15% | – | – | – |
| E-payment indicators | | | | | | | | |
| Number of proprietary ATMs | 637 | 131 | 370 | 382 | 107 | – | 14 | 64 |
| Active subscribers to Internet and PC banking facilities | 400 000 | 50 000 | 70 000 | 200 000 | 2 000 | – | 1 000 | 10 000 |
| Loan portfolio | | | | | | | | |
| Amount granted (in billions of EUR) | 26.0 | See Czech Republic | 8.4 | 6.5 | 0.6 | – | 0.1 | 3.0 |
| Share of the total loan portfolio | 12.5% | – | 4.0% | 3.1% | 0.3% | – | 0.04% | 1.4% |
| Population and expected GDP growth | | | | | | | | |
| Population, 2007 (in millions) | 10.2 | 5.4 | 10.0 | 38.5 | 7.3 | 22.3 | 10.2 | 141.4 |
| Expected annual real GDP growth, 2008–2010 | 5.1% | 6.5% | 3.8% | 5.5% | 6.0% | 5.9% | 5.5% | 5.7% |

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

2 Excluding acquisition of ČSOB (recognised in full under the Czech Republic).

'Additional information' section. The 'Other' heading (-83 million euros) comprises primarily the results of NLB and NLB Life in Slovenia (49 million euros), DZI Insurance in Bulgaria (4 million euros, three months only), A Banka in Serbia, (-4 million euros) and the funding for the goodwill on acquisitions, allocated overheads and minority interests in the group companies that come under the CEER Business Unit (-133 million euros combined).

## Network

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

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

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

Overall, given its current banking and insurance presence, KBC figures among the leading financial groups in Central and Eastern Europe, where it provides services to around 5.5 million bank customers and 4.3 million insurance customers. In total, the group has invested some 6 billion euros in Central and Eastern Europe and Russia (including the 0.4-billion-euro minority interest in NLB), 1.7 billion of which was invested in 2007. The breakdown by country (excluding Slovenia) is given in the table.

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

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

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

With market shares of 21% and 8% (the weighted average of the market share in lending and deposits), respectively, KBC is one of the top two banks in the Czech Republic and the fourth largest bank in Slovakia. In Hungary, the group is the second biggest, with a market share of 10%, and in Poland it is in the top ten, with a market share of 4%. KBC's position in the investment fund market is even stronger, with a share of 28% in the Czech Republic, 12% in Slovakia, 17% in Hungary and 4% in Poland. In the insurance business, the group has an estimated market share for life and non-life insurance of 10% and 5% in the Czech Republic, of 5% and 3% in Slovakia, of 5% and 4% in Hungary, and of 2% and 10% in Poland. All market share data is based on estimates to some extent. The intention is to achieve a market share of at least 10% for banking and insurance in all countries, with even higher targets for investment funds.

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

## Expansion into new Central and Eastern European countries and Russia

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

In August 2007, KBC bought an 85% stake in DZI Insurance, the leading Bulgarian insurance company. The group subsequently launched a public bid for the remaining shares and currently owns 89% of this company. In total, KBC paid 0.3 billion euros for this shareholding. DZI Insurance has an extensive multi-channel distribution network that covers the whole of Bulgaria, includes more than 200 direct points of sale, around 9 000 registered insurance agents and a network of brokers, and is in the number one position in both life and non-life insurance.

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

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

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

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

In July 2007, KBC completed the acquisition of 95% of Absolut Bank in Russia for around 0.7 billion euros. IFC has retained ownership of the remaining 5%. With this acquisition, KBC is entering an emerging European market, which, as already mentioned, should make for additional growth prospects in the years ahead. Indeed, with a population of 141 million people, expected annual real GDP growth of 5 to 6% in the coming years, and proportionately very low market penetration of bank and insurance products, Russia offers considerable potential for growth. KBC believes that through Absolut Bank (one of the fastest growing banks in Russia), it will be able to capitalise on the expected growth in financial products. Accordingly, extra attention will be given to the further development of the retail and SME segment, which should account for around 45% of the total activity mix by 2010 (around 30% today). To this end, the number of branches will be increased significantly in the years ahead. For the time being, the presence in Russia is not being extended to include an insurer, although this is a possibility in the long term.

## Objectives and focus for the years ahead

**The Management Committee of the CEER Business Unit has summarised the objectives for the years ahead as follows:**

**Achieve strong organic growth in the core markets of the Czech Republic, Slovakia, Poland and Hungary, *inter alia* by significantly expanding the bank and insurance networks. Make limited additional acquisitions where necessary and opportune.**

**Expand the relatively recent presence in the other Central and Eastern European markets (Bulgaria, Romania and the republics of the former Yugoslavia) through organic growth and additional takeovers, and focus on the integration and organisation of the new group companies.**

**Distinguish KBC from the competition by developing the bancassurance concept (including centralised management of banking and insurance activities per country) in all Central and Eastern European markets where the group is present.**

**Focus on providing support and guidance for the expected rapid growth in banking in Russia by expanding the branch network in selected regions.**

**Concentrate on customer relationship management and the implementation of a performance-driven corporate culture.**

**Achieve a return on allocated capital of at least 30%.**

# Merchant Banking Business Unit

Group Executive Committee
Group-level support services

Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit

## Guido Segers, CEO of the Merchant Banking Business Unit

Antwerp Diamond Bank (various countries), Assurisk (Luxembourg), IIB Bank (Ireland), KBC Commercial Finance (Belgium), KBC Bank (merchant banking activities), KBC Bank Deutschland (Germany), KBC Bank Nederland (Netherlands), KBC Clearing (Netherlands), KBC Credit Investments (Belgium), KBC Finance Ireland (Ireland), KBC Financial Products (various countries), KBC Lease (various countries), KBC Internationale Financieringsmaatschappij (Netherlands), KBC Peel Hunt (UK), KBC Private Equity (Belgium), KBC Securities (various countries), Secura (Belgium)

## DESCRIPTION

This business unit comprises the services provided to larger SME and corporate customers in Belgium and abroad, as well as all market activities. All merchant banking activities performed by the group companies in Central and Eastern Europe and Russia are recorded under the CEER Business Unit. Specifically, the Merchant Banking Business Unit encompasses the merchant banking activities of KBC Bank in Belgium, its branches abroad and the specialised merchant banking subsidiaries of KBC Bank, as well as the activities of the reinsurance companies and a number of financing companies. A list of the main group companies belonging to this business unit and its position in the group structure are given in the diagram.

## 2007 HIGHLIGHTS

- Despite the difficulties on the financial markets, this business unit's contribution (843 million euros) to underlying group profit was down by a mere 3% on 2006. Indeed the drop in trading-related income and higher impairment recognised on securities were largely offset by higher net interest income and the significant increase in net fee and provision income, among other things.
- Underlying return on allocated capital came to 16%.
- The leading position in stockbroking in Central and Eastern Europe was strengthened through the significant expansion of KBC Securities' network in the region.
- The group's presence and business portfolio were extended selectively through the addition of, for example, a corporate branch in Spain and the acquisition of the remaining 50% in International Factors (now KBC Commercial Finance).

## CONTRIBUTION TO GROUP RESULTS

### RESULTS, MERCHANT BANKING BUSINESS UNIT

| | | IFRS | | Underlying result* |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 772 | 596 | 1 017 | 1 105 |
| Gross earned premiums, insurance | 318 | 290 | 318 | 290 |
| Dividend income | 107 | 101 | 12 | 21 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 278 | 1 330 | 992 | 794 |
| Net realised gains from available-for-sale assets | 31 | -1 | 27 | -2 |
| Net fee and commission income | 142 | 250 | 286 | 396 |
| Other net income | 109 | 169 | 101 | 136 |
| **Total income** | **2 758** | **2 736** | **2 752** | **2 740** |
| Operating expenses | -1 234 | -1 313 | -1 234 | -1 313 |
| Impairment | 2 | -55 | 2 | -55 |
| on loans and receivables | 3 | -6 | 3 | -6 |
| on available-for-sale assets | -2 | -48 | -2 | -48 |
| Gross technical charges, insurance | -198 | -169 | -198 | -169 |
| Ceded reinsurance result | -29 | -32 | -29 | -32 |
| Share in results of associated companies | 1 | 2 | 1 | 2 |
| **Profit before tax** | **1 300** | **1 168** | **1 294** | **1 172** |
| Income tax expense | -334 | -245 | -329 | -239 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **966** | **923** | **965** | **933** |
| attributable to minority interests | 94 | 91 | 94 | 91 |
| **attributable to equity holders of the parent** | **872** | **833** | **871** | **843** |
| Banking | 781 | 784 | 781 | 794 |
| Insurance | 90 | 49 | 90 | 49 |
| Risk-weighted assets, banking (period-end) | 59 892 | 73 230 | 59 892 | 73 230 |
| Allocated capital (period-end) | 4 160 | 5 058 | 4 160 | 5 058 |
| Return on allocated capital | 21% | 17% | 21% | 16% |
| Cost/income ratio, banking | 50% | 53% | 50% | 53% |
| Combined ratio, non-life insurance | 92% | 91% | 92% | 91% |

* For information on how the underlying figures are calculated, see 'Group results for 2007'.

### RESULTS OF THE MERCHANT BANKING BUSINESS UNIT BY ACTIVITY

| | | IFRS | | Underlying result* |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| **Profit after tax, attributable to equity holders of the parent** | **872** | **833** | **871** | **843** |
| Corporate banking | 576 | 548 | 575 | 558 |
| Market activities | 296 | 285 | 296 | 285 |

* Full income statements reflecting underlying results for corporate banking and market activities are provided in the 'Additional information' section.

In 2007, the Merchant Banking Business Unit contributed 833 million euros (25%) to group profit, down 4% on the year-earlier figure. Disregarding fair value fluctuations in certain derivatives (the earnings impact of this is recorded under the 'Group results for 2007' section), the (underlying) net profit of the Merchant Banking Business Unit came to 843 million euros, 3% less than for 2006. No major exceptional items were recorded for either 2006 or 2007.

In 2007, 29% (or 5.1 billion euros) of group capital was allocated to this business unit, 22% more than in 2006. The return on the capital allocated came to 17% (based on net profit according to IFRS) or 16% (based on underlying net profit).

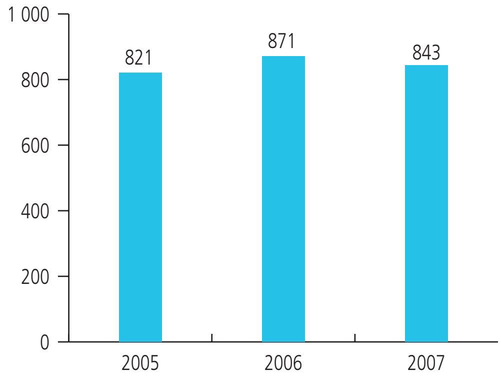
The following analysis is based on the underlying result. As previously mentioned, the underlying figures differ from the IFRS figures in that fair value fluctuations in certain derivatives are excluded, and all trading-related income is grouped (in total income) under 'Net (un)realised gains from financial instruments at fair value through profit or loss'.

The banking business (which accounts for the bulk of this business unit's activities) saw its underlying net profit go up by 2% to 794 million euros. Confined to the reinsurance activities of Secura and Assurisk, the insurance activities of the business unit yielded a net profit contribution of 49 million euros.

The total income of the Merchant Banking Business Unit fell slightly (by less than 1%) to 2 740 million euros. Net interest income went up by 9%, due partly to the increase in risk-weighted assets and despite the negative effect of dividends being channelled upstream from this business unit to the Group Centre to fund the share buyback programme. Net fee and commission income rose sharply (by 38%), owing to such factors as the strong brokerage and corporate finance activities for SMEs and midcaps (including the impact of the new Central and Eastern European brokerage acquisitions).
Net (un)realised gains from financial instruments at fair value through profit or loss (trading income) fell (-20%), partly because of the difficult situation that prevailed on the financial markets from the summer on (this item includes, for example, a negative impact of 85 million euros consequent on the CDOs in the business unit's portfolios being marked to market and a 39-million-euro

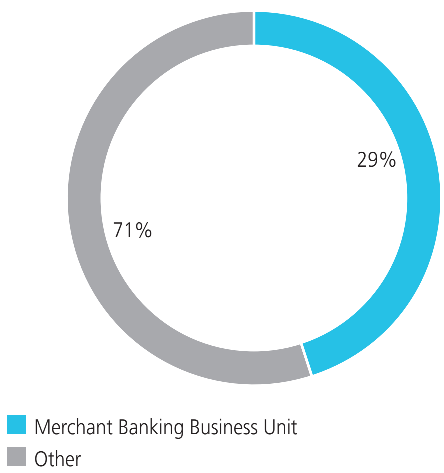
***Merchant Banking Business Unit: underlying net profit***

*In millions of EUR*




***Merchant Banking Business Unit: share***

*In underlying net profit of the group (2007)*



downward value adjustment related to the counterparty risk for credit reinsurers).
Net realised gains from available-for-sale assets amounted to a negative 2 million euros, 29 million euros less than in 2006, due primarily to the allocation to this business unit of a 34-million-euro loss on the sale of bonds in the bank portfolio.
Premium income from reinsurance activities fell by some 9% to 290 million euros, in part due to the stricter acceptance policy adopted by Secura. Once again, solid technical results were chalked up, with a combined ratio at year-end of 91%, another small improvement on the previous year. Disregarding the negative impact of the Kyrill storm, the 2007 combined ratio was even as low as 89%.

Despite the depreciation of the US dollar against the euro, operating expenses rose by 6% to 1 313 million euros, owing partly to one-off items (e.g., a provision of 23 million euros for a legal dispute), the new acquisitions and wage inflation. The cost/income ratio for this business unit ended the year at 53%, compared with 50% in 2006.

Impairment losses amounted to 55 million euros, whereas there had been a small net reversal in 2006. Impairment on available-for-sale assets accounted for most of this figure (around 48 million euros) due to the deteriorating situation on the markets in the second half of the year, whereas impairment on loans and receivables benefited (by 35 million euros) from a change in the method of calculating portfolio-based impairment. The loan loss ratio for 2007 came to a highly favourable 0.02%.

The Merchant Banking Business Unit encompasses corporate banking (the services provided to SMEs and larger companies, which accounted for about 66% of the business unit's underlying net profit in 2007) and market activities (e.g., currency dealing, securities trading, corporate finance and private equity, which accounted for roughly 34%). A detailed income statement for each of these activities is provided in the 'Additional information' section.

## NETWORK AND MAIN DEVELOPMENTS

### FACTS AND FIGURES, MERCHANT BANKING BUSINESS UNIT

| Customers (estimate) | 2006 | 2007 |
|---|---|---|
| Corporate banking (Belgium) | 19 000 | 19 000 |
| **Network** | | |
| KBC Bank corporate branches in Belgium, including branches catering for the social profit segment and CBC Banque *succursales* | 33 | 33 |
| KBC Bank branches in the rest of the world*, including representative offices | 36 | 36 |
| **Assets under management** | | |
| Total (in billions of EUR) | 0.7 | 2.2 |
| **Market share (estimate)** | | |
| Corporate lending (Belgium) | 21% | 22% |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 94.0 | 101.6 |
| Share of the total portfolio | 51% | 49% |

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

## Corporate banking

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

Outside Belgium, the group has a select corporate banking presence through thirty-six branches, offices and subsidiaries of KBC Bank located primarily in Western Europe, but also in Southeast Asia and the US, that concentrate mainly on local midcap customers and customers that already do business with KBC's Belgian or Central and Eastern European network. Additionally, these establishments operate in certain niches, which may include government finance, health care, real estate, financial institutions, trade finance or acquisition finance.

In recent years, there have been few changes to the network abroad. In 2007, only one new branch was opened, in Spain (previously, there was only a representative office there), and in 2008 a new branch in Italy (Milan) is being considered.

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

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

The Merchant Banking Business Unit also includes two of the group's reinsurers, Secura (Belgium) and Assurisk (Luxembourg).

## Market activities

The market activities include all dealing room activities in Western Europe, the United States and the Far East, with the dealing room in Brussels accounting for the bulk of these activities. The group offers an extensive range of products to cope with interest rate and forex risks, ranging from simple products (deposits, forex spot transactions, forex and interest rate options, bonds, repos, etc.) to more exotic products, such as options, structured issues and Collateralised Debt Obligations (CDOs).

KBC is also a prominent player on the primary Eurobond market, and in 2007 participated, via KBC Bank, in more than 200 syndicated deals as lead, co-lead or co-manager, including deals in a number of Central and Eastern European currencies.

The group is also a major issuer on the international capital markets. For instance, in 2007, KBC raised almost 11 billion euros in cash under IFIMA's Euro Medium Term Note programme, guaranteed by KBC Bank. Moreover, the solvency of KBC Bank was strengthened by a tier-1 issue in the amount of 150 million pounds sterling.

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

## Specific acquisitions and the expansion of activities

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

In 2007, for example, KBC Securities consolidated its position as market leader in Central and Eastern Europe by acquiring a number of brokers in the region: Swiss Capital (now KBC Securities Romania), Equitas (now KBC Securities Hungary), DZI Invest (Bulgaria),

# Objectives and focus for the years ahead

**The Management Committee of the Merchant Banking Business Unit has summarised the objectives for the years ahead as follows:**

**Focus on corporate banking for small and midcaps in Belgium, combined with a presence in the major financial centres and a select number of other countries and regions.**

**Engage in market activities, primarily for the purpose of supporting corporate banking in the home markets or as an extension of these services. Engage also in a selection of niche activities with the aim of generating extra profit and providing research and development support to the entire group.**

**Focus on enhancing synergy between the various companies and other business units within the group.**

**Achieve a return on allocated capital of at least 19%.**

Baltic Investment Company (now KBC Securities Baltic Investment Company, with activities in the Baltic states and Russia), Indigo Capital (now KBC Securities Ukraine), Bastion (a Serbian corporate finance specialist; now KBC Securities Corporate Finance LLC), Senzal (now KBC Securities Beograd) and Hipobroker (now KBC Broker). As a result of this considerable expansion, KBC Securities was already generating around 45% of its 2007 net profit in the Central and Eastern Europe region.

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

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

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

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

## E-services

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

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

# European Private Banking Business Unit

**Group Executive Committee**
Group-level support services

Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit

## Etienne Verwilghen, CEO of the European Private Banking Business Unit

Brown Shipley & Co Limited (UK), Kredietbank SA Luxembourgeoise (Luxembourg), KBL France (France), KB Luxembourg Monaco (Monaco), Kredietbank (Suisse) (Switzerland), Merck Finck & Co (Germany), Puilaetco Dewaay Private Bankers (Belgium), Theodoor Gilissen Bankiers NV (Netherlands), VITIS Life Luxembourg SA (Luxembourg)

## DESCRIPTION

This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) and the insurance company, VITIS Life Luxembourg SA. A list of the main group companies belonging to this unit and its position in the group structure are given in the diagram.

## 2007 HIGHLIGHTS

- This business unit's contribution to underlying group profit was up 7% to 194 million euros, due in part – on a comparable basis – to higher net fee and commission income and gains realised on the sale of securities.
- Costs were kept well under control: the underlying cost/income ratio improved from 73% to 65% within the space of a year.
- The underlying return on allocated capital came to 33%.
- Assets under management amounted to almost 55 billion euros; in keeping with strategy, onshore private banking assets increased (by 4%).
- KBL EPB was voted 'Bank of the Year 2007 in Luxembourg' by *The Banker*.

## CONTRIBUTION TO GROUP RESULTS

### RESULTS, EUROPEAN PRIVATE BANKING BUSINESS UNIT

| | IFRS | | Underlying result* | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 358 | 273 | 160 | 169 |
| Gross earned premiums, insurance | 40 | 42 | 40 | 42 |
| Dividend income | 15 | 13 | 15 | 13 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | -100 | -56 | 89 | 46 |
| Net realised gains from available-for-sale assets | 22 | 66 | 22 | 66 |
| Net fee and commission income | 481 | 467 | 481 | 467 |
| Other net income | 515 | 32 | 14 | 17 |
| **Total income** | **1 331** | **838** | **821** | **822** |
| Operating expenses | -542 | -487 | -537 | -487 |
| Impairment | 4 | -39 | 4 | -39 |
| on loans and receivables | -2 | -33 | -2 | -33 |
| on available-for-sale assets | 7 | -5 | 7 | -5 |
| Gross technical charges, insurance | -65 | -66 | -65 | -66 |
| Ceded reinsurance result | 0 | 0 | 0 | 0 |
| Share in results of associated companies | 3 | 3 | 3 | 3 |
| **Profit before tax** | **732** | **249** | **227** | **233** |
| Income tax expense | -45 | -39 | -42 | -39 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **687** | **210** | **184** | **194** |
| attributable to minority interests | 9 | 0 | 3 | 0 |
| **attributable to equity holders of the parent** | **678** | **210** | **181** | **194** |
| Banking | 668 | 202 | 170 | 186 |
| Insurance | 11 | 8 | 11 | 8 |
| Risk-weighted assets, banking (period-end) | 5 842 | 6 610 | 5 842 | 6 610 |
| Allocated capital (period-end) | 461 | 514 | 461 | 514 |
| Return on allocated capital | 119% | 36% | 29% | 33% |
| Cost/income ratio, banking | 43% | 64% | 73% | 65% |

* For information on how the underlying figures are calculated, see 'Group results for 2007'.

In 2007, the European Private Banking Business Unit contributed 210 million euros (6%) to the group result. In 2006, this figure had come to 678 million euros, but had included a 0.5-billion-euro capital gain realised on the sale of Banco Urquijo in Spain. Disregarding fair value changes in certain derivatives and the exceptional items (i.e. the above gain realised on Banco Urquijo in 2006 and the 14-million-euro capital gain realised on the sale of Banca KBL Fumagalli Soldan in 2007), the underlying net profit of this business unit came to 194 million euros (7% of underlying group profit), 7% more than in 2006.

In 2007, 3% (or 0.5 billion euros) of group capital was allocated to this business unit, 11% more than in 2006. The return on the capital allocated came to 36% (based on net profit according to IFRS) or 33% (based on underlying net profit).

The following analysis is based on the underlying result. For the sake of comparison, the percentage increases are based on 2006 figures excluding Banco Urquijo.

The banking business (KBL European Private Bankers group, which accounts for the bulk of this business unit) saw its underlying net profit go up by 11% to 186 million euros. Confined to VITIS Life Luxembourg, the insurance activities of the business unit contributed 8 million euros to net profit.

The total income of the European Private Banking Business Unit amounted to 822 million euros, up 9% on 2006. On a comparable basis, the main income component – net fee and commission income – went up by 5% to 467 million euros. At almost 55 billion euros, assets under management remained virtually unchanged, though assets managed in the onshore private banking business did increase by 4%.
Most of the other components of income were likewise up on a comparable basis: net interest income rose by 21%, other net income went up by 28% and net realised gains from available-for-sale assets increased from 22 to 66 million euros. Net (un)realised gains from financial instruments at fair value through profit or loss were down on their year-earlier figure (-35 million euros on a comparable basis), due in part to trading activities being scaled down in keeping with the relevant strategy. This heading also included the negative impact of fair value changes in the CDOs held in portfolio (-18 million euros in 2007).

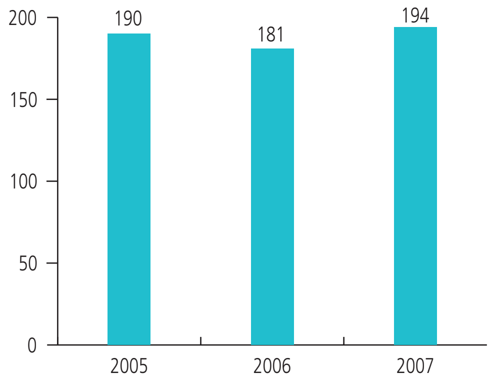
Gross earned life insurance premiums came to 42 million euros, but, as required under IFRS, this figure does not reflect unit-linked life insurance. For these products, neither premium income nor technical charges are shown under IFRS, only the realised margin (under 'Net fee and commission income'). If the premium income from such products is included, total premium income for the life insurance activities came to roughly 239 billion euros. The outstanding life reserves grew by 9% to 1.5 billion euros at the end of 2007.

On a comparable basis, operating expenses in the European Private Banking Business Unit (at 487 million euros) were more or less unchanged from their 2006 level, with the cost/income ratio of the unit's banking activities coming to 65%, a significant improvement on the figure of 73% in 2006.

Impairment came to 39 million euros and concerned primarily loans made to professional counterparties.

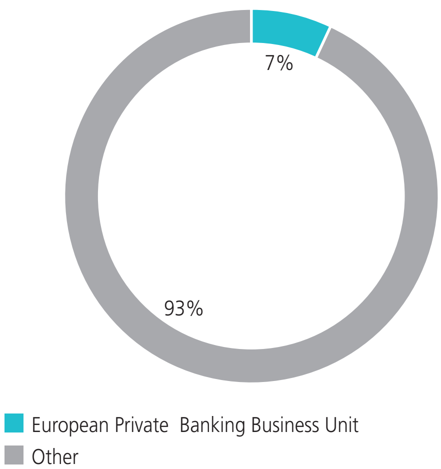
## *European Private Banking Business Unit: underlying net profit*

*In millions of EUR*




## *European Private Banking Business Unit: share*

*In underlying net profit of the group (2007)*




**At the end of November, the KBL EPB group was voted 'Bank of the Year 2007 in Luxembourg' by international magazine, *The Banker*. Commenting on the award, Etienne Verwilghen, CEO of the European Private Banking Business Unit, had this to say:**

**This award crowns a year in which we made great efforts to improve our capacity for innovation, as well as our performance. I would like to thank all our staff, in Luxembourg and across Europe, who have helped us to meet the expectations of clients and at the same time reach our financial and strategic goals. Our client-centred approach and our decision to maintain our expansion in Europe both through organic growth and the acquisition of private bankers, attracted by the dynamism of our project, have also borne fruit. Buoyed by this success, our ambition is to position our bank as a major player in private banking in Western Europe today and in Central and Eastern Europe tomorrow.**

## NETWORK AND MAIN DEVELOPMENTS

### FACTS AND FIGURES, EUROPEAN PRIVATE BANKING BUSINESS UNIT

| Network | 2006 | 2007 |
|---|---|---|
| Number of countries in which the group is present | 10 | 8 |
| **Assets under management* (in billions of EUR)** | | |
| Onshore private banking | 24.5 | 25.5 |
| Offshore private banking | 15.8 | 15.6 |
| Other (institutional and other assets) | 14.2 | 13.4 |
| Total | 54.5 | 54.5 |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR) | 3.7 | 3.9 |
| Share of the total loan portfolio | 2% | 2% |

* For 2006, excluding Banca KBL Fumagalli Soldan (sold in 2007).

## Network

KBL EPB is responsible for KBC's network of local pure-play private banks in Europe.

Geographically, KBL EPB focuses on the Benelux and certain West European countries. At the moment, KBL EPB is present via its group companies in Germany, France, the United Kingdom, Switzerland, Monaco, the Netherlands, Luxembourg and Belgium. The aim is to gain enough critical mass in each country in order to guarantee profitability in the long term. Consequently, from this perspective, further acquisitions or the sale of existing subsidiaries are a possibility. This was illustrated in 2007 by the divestment of Banca KBL Fumagalli Soldan in Italy. The sales price came to 44 million euros, yielding KBC a gain of around 14 million euros. In addition, the activities of KBL Finance Ireland were taken over by KBL in Luxembourg. At the start of 2008, a protocol agreement was signed for the acquisition of Richelieu Finance, a French asset management company which manages assets of roughly 4 billion euros (at year-end 2007) and will complement KBL EPB's existing presence in France perfectly.

To date, the KBL EPB group has not had a direct presence in Central and Eastern Europe, and private banking activities there have been directed by the KBC Bank subsidiaries in the region. However, the aim now is to develop the private banking business gradually in this region, too, via the concept of private banking boutiques.

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

## Assets under management

At year-end 2007, assets managed by the KBL EPB group came to 54.5 billion euros, roughly 24% of total assets under management by the KBC group (see 'Group results for 2007'). On a comparable basis (i.e. disregarding Banca KBL Fumagalli Soldan in 2006), this figure is virtually unchanged from a year earlier.

In line with the strategic objectives, the strongest growth was recorded in onshore private banking assets, which were good for 25.5 billion euros at the end of 2007 (4% higher than a year earlier), with about 85% of the figure due to new inflows. At 15.6 billion euros, assets managed in the offshore private banking business remained at virtually the same level as at the end of 2006, while institutional and other assets fell, as planned (by 0.8 billion euros to 13.4 billion euros).

## Other developments

To ensure the successful development of its European network, KBL EPB has created a Hub Service Centre (the Hub) in Luxembourg in order to provide services (such as ICT and operational support) to group members. The support provided by this Hub is important for the growth of the European private banking network, as it enables all group companies to concentrate on their core commercial activities and facilitates substantial economies of scale. Moreover, it is continuously in contact with the network via a management committee that works together with all the relevant group subsidiaries, thus ensuring that the various group companies can get together, exchange points of view, set priorities and come up with joint solutions to shared problems.

Besides private banking, the KBL EPB group pursues another core activity in Luxembourg, viz. the provision of securities-related services to institutional clients. This business is conducted by the Global Investor Services (GIS) department, whose aim is to enhance the development and promote sales of new products for the investment fund industry and to strengthen use by the KBL EPB network of KBC and KBL products.

# Objectives and focus for the years ahead

**The Management Committee of the European Private Banking Business Unit has summarised the objectives for the years ahead as follows:**

**Focus on organic growth in the Benelux and neighbouring countries, where there should be sufficient critical mass in each country to maintain profitability during an economic downturn. Where opportune, our presence will be stepped up through further limited acquisitions.**

**Gradually expand the area of operation to Central and Eastern Europe, where private banking boutiques will be set up on a selective basis.**

**Focus on growing onshore private banking activities.**

**Continue to develop the Hub support service in Luxembourg.**

**Achieve a return on allocated capital of at least 34%.**

# Shared Services & Operations Business Unit

**Group Executive Committee**
Group-level support services

| Belgium Business Unit | CEER Business Unit | Merchant Banking Business Unit | European Private Banking Business Unit | Shared Services & Operations Business Unit |
|---|---|---|---|---|

## Chris Defrancq, KBC Group COO, CEO of the Shared Services & Operations Business Unit

Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing

## DESCRIPTION

This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group. Most of the expenses and income of the Shared Services & Operations Business Unit are passed on to the other business units and consequently reflected in their results. A list of the divisions belonging to this unit and its position in the group structure are given in the diagram.

## 2007 HIGHLIGHTS

- The Operational Excellence programme was implemented, resulting in a sharp group-wide focus on achieving excellence in business processes.
- KBC Asset Management achieved further geographic expansion, *inter alia*, in China, Taiwan and Oceania.
- ICT services and systems continued to be integrated.
- Preparations for the Single Euro Payments Area (SEPA) were completed.

# ACTIVITIES AND MAIN DEVELOPMENTS

## FACTS AND FIGURES, SHARED SERVICES & OPERATIONS BUSINESS UNIT

| Asset Management | 2006 | 2007 |
|---|---|---|
| Assets managed in Belgium (in billions of EUR) | 142.9 | 161.7 |
| Assets managed in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland, in billions of EUR) | 10.0 | 13.0 |
| Assets managed in the rest of the world (primarily the KBL EPB network, in billions of EUR) | 55.7 | 56.7 |
| Estimated share of the investment fund market in Belgium | 34% | 35% |
| Estimated share of the investment fund market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland) | 28%, 10%, 18%, 4% | 28%, 12%, 17%, 4% |
| **Payments (in millions)** | | |
| Number of cash transactions* in Belgium | 481 | 526 |
| Number of cash transactions* in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland) | 393 | 473 |
| **Leasing** | | |
| Capital outstanding under leasing contracts in Belgium (in billions of EUR) | 2.1 | 2.5 |
| Capital outstanding under leasing contracts in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania; in billions of EUR) | 2.1 | 2.7 |
| Capital outstanding under leasing contracts in the rest of the world (Western Europe excluding Belgium; in billions of EUR) | 1.4 | 1.6 |
| Estimated share of the leasing market in Belgium (general leasing, car leasing) | 20%, 12% | 22%, 11% |
| Estimated share of the leasing market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania) | 16%, 17%, 7%, 1%, 4% | 15%, 17%, 8%, 1%, 4% |

* Domestic and cross-border transfers, direct debits and cheques, debit and credit card transactions carried out by KBC customers.

## Organisation

The task of the Group Organisation division is to support the group and advise it on possibilities for making structural improvements to the way KBC is organised.

In 2007, the main focus – in keeping with the Operational Excellence programme – was on improving processes and process management. Twenty projects were launched in the group's various business units, aimed at making processes within the organisation more straightforward, cheaper, faster and more customer-friendly.

In addition, the Group Organisation division played an active part in integrating the new Central and Eastern European companies into the group, was involved in the further implementation of the new group structure, provided support in the area of business-ICT governance and acted as an adviser for a number of projects aimed at improving the group's efficiency even more.

## Asset Management

KBC Asset Management (KBC AM) has group-wide responsibility for asset management services provided to individual and institutional investors and for investment fund management. Its remit also includes research, product development, advice, risk management and marketing.

In Belgium and in Central and Eastern Europe, KBC sells its funds through a proprietary network of bank branches and insurance agencies. In 2007, it launched no fewer than 227 new investment funds on the Belgian market, an activity marked by innovation and a desire to respond to new investment trends. As a result, KBC's market share in Belgium increased to over 35%. In Central and Eastern Europe, the group came out with no fewer than 135 new investment funds, leading to an increase in assets under management in the region by 30% to 13 billion euros.

In the rest of the world, the funds managed by KBC AM are sold by third parties. In China, for instance, funds are sold via the joint venture KBC-Goldstate Fund Management Co. In addition, significant acquisitions were made in Oceania (Liontamer) and Taiwan (Sunrise Asset Management). KBC AM is also present in Ireland, the United States, Germany, Spain, Switzerland, the Netherlands, Japan, South Korea and Hong Kong.

In 2007, Fitch again awarded KBC AM an M2 rating. This second-highest credit rating confirms the professionalism of the asset management activities.

## ICT

All of the group's ICT services are brought together in the Group ICT division, which is responsible for the group-wide provision of in-house ICT services.

Like the other shared services and operations, this division focuses on fostering integration within the group, an approach which has resulted in more group-wide investment being made rather than local initiatives being taken, as in the past. For instance, a decision was taken in 2007 to integrate the ICT activities of various group companies in Western Europe (KBC Lease, Fin-Force, etc.). In Central and Eastern Europe (K&H Bank, ČSOB, etc.), these activities will be transferred to a separate entity. All this should help improve efficiency even more and raise the performance of group-wide ICT activities to the excellent standard set in Belgium.

2007 also marked the start of co-operation with the new group companies in Bulgaria, Serbia, Romania and Russia, and the launch of new ICT programmes for the leasing and consumer finance businesses. This will be followed in the next few years by, among other things, the roll-out of SEPA (Single Euro Payments Area) payment systems and – with priority being given to Belgium and Poland – the delivery of a new system for non-life insurance management and claims settlement.

By making these considerable efforts on the ICT front, the group has become one of the sector's bigger investors in ICT. The Group ICT division is also extremely active in its recruitment drive.

## Payments

The Group Payments product factory is responsible for policy, the development and management of processing platforms, risk management and sales support for payment products, such as demand accounts, cash, domestic and cross-border payments, payment cards, cash pooling and the w1se Corporate e-Banking ® Internet application. It also overarches local divisions in Central and Eastern Europe, more specifically in countries where the group has a significant banking presence and where SEPA will be introduced. These divisions are responsible specifically for adapting the product mix to meet local needs.

As is the case with all shared services and operations, the product mix is continually being adjusted to take account of changing market circumstances (i.e. development of new SEPA payment instruments, new EU legislation on payments, the future introduction of the euro in certain Central and Eastern European countries, etc.). Where process optimisation and operational excellence are concerned, the objective is to arrive at a group-wide approach, and also to identify synergies and economies of scale. Recent examples in this regard include cross-border payments of Central and Eastern European group companies being processed by Fin-Force in Bratislava and the successful migration of payment card transactions to SiNSYS and ATOS, specialists in the pan-European processing of payment card transactions.

## Trade Finance

This group-wide product factory is responsible for drawing up policy on the product offering, processing and sale of payment and finance instruments for export and import transactions, including letters of credit, documentary collections, guarantees and export finance. It thus groups all the trade finance teams located in the various countries where the group is present (with the focus on Belgium and Central and Eastern Europe).

# Objectives and focus for the years ahead

**The Management Committee of the Shared Services & Operations Business Unit has summarised the objectives for the years ahead as follows:**

**Continue to bring business processes into line throughout the group and centralise management of the main processes (asset management, payments, consumer finance, leasing, trade finance and ICT).**

**Achieve as much synergy as possible in the group to boost sales volumes and enhance process excellence.**

**Make further investments in ICT systems for the entire group.**

**Leverage existing fund expertise outside the home markets.**

The establishment of a single overarching group-wide entity has already started to pay considerable dividends. For instance, there has been an increase in processed volumes and fee income, the Internet tool Flexims has been successfully rolled out in Central and Eastern Europe, and work has begun on a common back-office platform.

In addition, this division has again responded pro-actively to new market trends. Within the international banking community, for example, KBC plays a leading role in the development of new products and services (relating to payment reconciliation, financing, etc.) based on the *Trade Service Utility* developed by SWIFT. KBC is aiming to offer its customers a multi-bank Internet tool at the start of 2008, which will allow them to manage their import and export transactions at their various banks.

## Leasing

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

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

2007 was another very busy leasing year for the group, with the integration of Romstal Leasing and INK Consultanta (Romania), and the opening of KBC Lease España in Madrid among other projects. Various new products were also launched, including GREENlease, a unique three-part complete eco-package KBC Autolease is offering in response to the growing 'green' concerns of today's fleet managers, who increasingly need to take environmental considerations into account for ecological and tax reasons. Moreover, services are continually screened to see if they can be improved upon. For instance, the business process for handling leasing requests by KBC Bank and CBC Banque branches was fully automated in 2007, ensuring a shorter throughput time for customers.

## Consumer Finance

Headquartered in Warsaw, the Consumer Finance product factory has group-wide responsibility for revolving credit cards (such as PINTO cards in Belgium), Point-of-Sale (POS) loans, car loans and instalment loans.

By setting up a separate product factory, the group is aiming to strengthen its position on the fast-growing consumer finance market. In Central and Eastern Europe, consumer finance has experienced particularly strong growth, amounting in recent years to roughly 30% in the Czech Republic and to more than 50% in Slovakia, and growth is expected to continue at this pace for some time to come.

To sell these products, KBC uses traditional bank channels and typical consumer finance channels, such as in-store finance. This last is already provided in Poland, where Żagiel – a Kredyt Bank subsidiary – sells POS loans (instalment loans to finance the purchase of goods like TVs, computers and furniture) through an extensive network of partner shops. This has made Żagiel one of the biggest players on the consumer finance market in Poland. At the end of 2007, Consumer Finance employed approximately 1 700 people in Poland, Belgium, the Czech Republic and Romania, almost twice as many as a year earlier.

# Value and risk management

La Gamme d'Amour, James Ensor

**Herman Agneessens, KBC Group CFRO:**

**The business of bancassurance is exposed to a number of typical risks, such as credit risk, market risk and liquidity risk, as well as technical insurance risk and operational risk. Controlling all these risks is one of the most crucial tasks of management. This section of our annual report provides an overview of how we approach value and risk management in our group. For KBC, 2007 will be remembered as the year that marked the start of the integration of the newly acquired group companies in Russia, Bulgaria, Romania and Serbia into our risk management model. For the financial industry as a whole, it will go down as the year that saw renewed interest in the concept of liquidity risk and the broad exposure of financial institutions to credit risk.**

## VISION AND PRINCIPLES

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

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

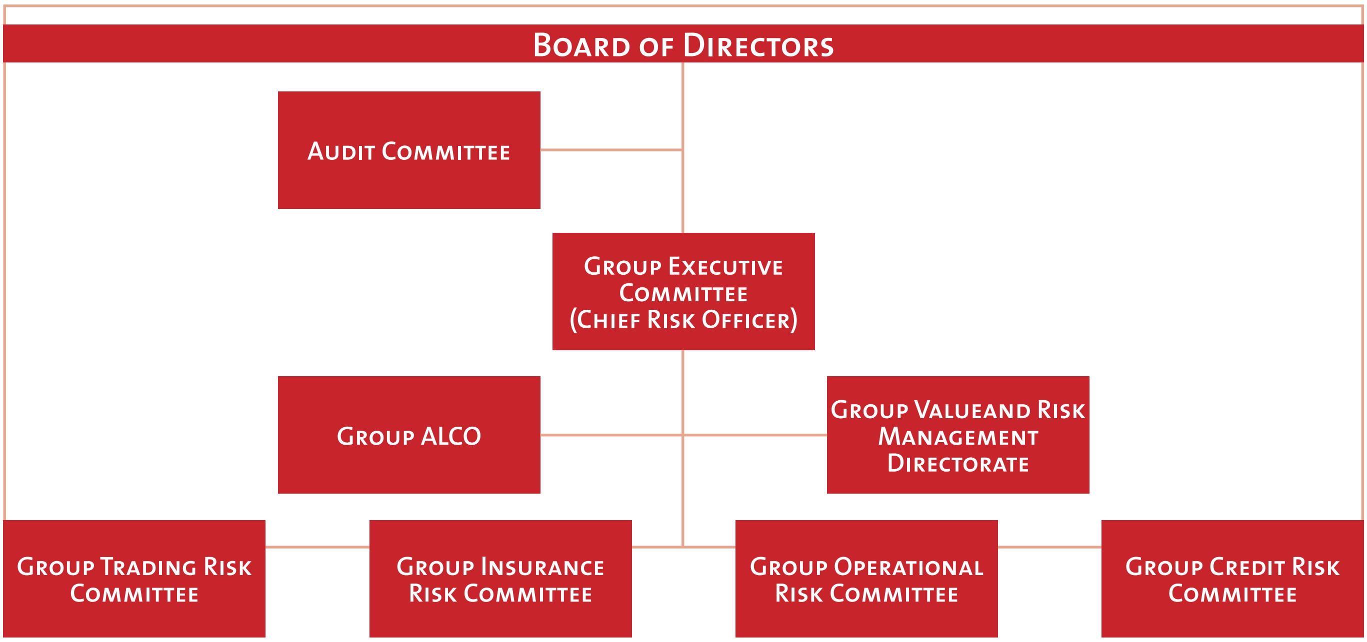
The information in this section has been audited by the statutory auditor only where required under IFRS, viz.:

- the entire 'Vision and principles' section;
- the entire 'Risk governance model' section;
- parts of the 'Credit risk management' section, namely:
  - 'Description';
  - 'Managing credit risk, banking';
  - those parts indicated in the footnotes to the 'Loan portfolio' table, the 'Other credit exposure' table, and the table entitled 'Credit exposure to (re)insurance companies by risk class, in Exposure at Default (EAD) and Expected Loss (EL)'.
- parts of the 'Asset/Liability management' section, namely:
  - 'Description';
  - 'Managing ALM risk';
  - 'ALM in 2007: Interest rate risk' (the first three paragraphs);
  - 'ALM in 2007: Credit risk in the investment portfolios';
  - 'ALM in 2007: Foreign exchange risk';
  - 'ALM in 2007: Liability adequacy in the life insurance business (the first paragraph);
  - 'ALM in 2007: Embedded Value in the life insurance business' (the first two paragraphs).
- the entire 'Liquidity risk management' section;
- the entire 'Market risk management' section (unless indicated otherwise);
- the entire 'Technical insurance risk management' section;
- parts of the 'Solvency and economic capital' section, namely:
  - 'Description';
  - 'Managing solvency';
  - 'Solvency in 2007, group overview (those parts indicated in the table);
  - 'Economic capital' (the first three paragraphs).

## RISK GOVERNANCE MODEL

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

- *The Board of Directors (assisted by the Audit Committee), the Group Executive Committee and the Group Asset/Liability Management Committee (ALCO).* These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value, risk and capital management strategy defined by the Board of Directors and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive Committee, supervises risk management. The Group ALCO takes the investment and funding decisions and also monitors the relevant risk exposure.
- *Specialised group risk committees.* These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various group committees are:
  - the Group Trading Risk Committee, which monitors all risk associated with trading activities;




- the Group Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including credit risk in respect of (re)insurance);
- the Group Operational Risk Committee, which oversees operational risk management;
- the Group Insurance Risk Committee, which monitors specific insurance risks.

  Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary), to roll out the risk management framework.

• The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.

• The Group Internal Audit division is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.

• Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.

• The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as *validating staff* is different from *modelling staff*.

## CREDIT RISK MANAGEMENT

## Description

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

## Managing credit risk, banking

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

**Credit risk management at transactional level**

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

*Supervision and monitoring.* How the credit is monitored is determined primarily by the risk class, with a distinction being made based on the Probability of Default (PD) and the Expected Loss (EL). The latter takes account not only of the PD, but also of the amount expected to be left outstanding on default and the non-recoverable loss in that event. The 'normal' loan portfolio is split up into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk), and this for both the EL and the PD. Loans to large corporations in this portfolio are reviewed periodically, at least once a year. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). It is not only credit that is monitored, credit decisions are too, i.e. a member of a credit committee will supervise decisions taken at the decision level immediately below, by checking whether the decision is consistent with lending policy.

Defaulting obligors are put into PD classes 10, 11 or 12. PD class 10 is for 'still performing' borrowers, i.e. borrowers with loans for which interest payments and principal repayments are not more than 90 days in arrears or overdrawn. Classes 11 and 12 are for 'non-performing' borrowers. Class 11 groups borrowers that are more than 90 days in arrears or overdrawn, while class 12 comprises borrowers whose credit has been cancelled or which are in danger of going bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Group Executive Committee every quarter.

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

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

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

**Credit risk management at portfolio level**

Monitoring is also conducted on a portfolio basis, *inter alia* by means of quarterly reports on the consolidated loan portfolio. The largest risk concentrations are, in addition, monitored via periodic and *ad hoc* reports. Limits are in place at borrower or counterparty level, at sector level and for specific activities (such as acquisition finance) or geographic areas. Whereas some limits are still in notional terms, more advanced concepts (such as 'expected loss' and 'loss given default') are increasingly being used. Moreover, stress tests are performed on certain types of credit. For commercial real estate credit, caps are defined in terms of stressed expected loss exposure.

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

## Overview of the loan portfolio, banking

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

At the end of 2007, the total portfolio of credit granted came to 208 billion euros, 12% more than a year earlier. Excluding currency fluctuations, the increase came to 14%. If both currency fluctuations and changes in the scope of consolidation (mainly Absolut Bank in Russia and Economic and Investment Bank in Bulgaria) are excluded, the increase came to 12%.

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

## LOAN PORTFOLIO

| Total loan portfolio (in billions of EUR) | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Amount granted | 185.7 | 208.2 |
| Amount outstanding | 138.6 | 163.5 |
| **Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)** | | |
| Belgium | 29% | 28% |
| CEER | 18% | 21% |
| Merchant Banking | 51% | 49% |
| European Private Banking | 2% | 2% |
| **Total** | **100%** | **100%** |
| **Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)[1]** | | |
| Loans | 87% | 87% |
| Working capital credit lines | [1] | 39% |
| Investment credit | [1] | 48% |
| Mixed lines | [1] | 0% |
| Guarantee credit | 6% | 5% |
| Corporate bonds | 4% | 5% |
| Bank bonds | 4% | 3% |
| **Total** | **100%** | **100%** |
| **Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[2]** | | |
| Private individuals | 27% | 27% |
| Financial and insurance services | 16% | 15% |
| Governments | 3% | 4% |
| Corporates | 54% | 54% |
| Non-financial services | 9% | 9% |
| Retail and wholesale trade | 8% | 8% |
| Real estate | 6% | 7% |
| Construction | 4% | 4% |
| Automobile industry | 3% | 3% |
| Chemical industry | 2% | 2% |
| Electricity | 3% | 2% |
| Agriculture, stock farming and fishing | 2% | 2% |
| Food industry | 2% | 2% |
| Metals | 2% | 2% |
| Other | 13% | 13% |
| **Total** | **100%** | **100%** |

## LOAN PORTFOLIO (continued)

| Loan portfolio breakdown by risk class (part of the portfolio[3], as a % of Exposure at Default)[4] | 31-12-2006 | 31-12-2007 |
|---|---|---|
| PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%) | 25% | 26% |
| PD 2 (0.10%–0.20%) | 14% | 14% |
| PD 3 (0.20%–0.40%) | 21% | 13% |
| PD 4 (0.40%–0.80%) | 13% | 16% |
| PD 5 (0.80%–1.60%) | 13% | 17% |
| PD 6 (1.60%–3.20%) | 6% | 7% |
| PD 7 (3.20%–6.40%) | 5% | 4% |
| PD 8 (6.40%–12.80%) | 1% | 1% |
| PD 9 (highest risk, 12.80%–100.00%) | 1% | 1% |
| **Total** | **100%** | **100%** |
| Impaired loans[5] (PD 10 + 11 + 12; in millions of EUR or %) | | |
| Impaired loans | 3 324 | 3 446 |
| Specific impairment | 2 001 | 2 048 |
| Portfolio-based impairment | 222 | 186 |
| Loan loss ratio, negative figures indicate a positive impact on profit | | |
| Belgium Business Unit | 0.07% | 0.13% |
| CEER Business Unit[6] | 0.58% | 0.26% |
| Merchant Banking Business Unit | -0.01% | 0.02% |
| European Private Banking Business Unit | -0.10% | 1.03% |
| **Total** | **0.13%** | **0.13%** |
| Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %) | | |
| Amount outstanding | 2 221 | 2 386 |
| Specific impairment for non-performing loans | 1 541 | 1 505 |
| Non-performing ratio | | |
| Belgium Business Unit | 1.5% | 1.6% |
| CEER Business Unit | 2.4% | 2.1% |
| Merchant Banking Business Unit | 1.3% | 1.0% |
| European Private Banking Business Unit | 1.9% | 1.7% |
| **Total** | **1.6%** | **1.5%** |
| Cover ratio | | |
| Specific impairment for non-performing loans/outstanding non-performing loans | 69% | 63% |
| Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans | 100% | 94% |

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

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

2 Audited figures.

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

4 Audited figures (except for PD).

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

6 For the Czech Republic and Slovakia, the loan loss ratio at 31 December 2007 came to 0.27%, for Hungary to 0.62%, for Poland to -0.34% and for Russia to 0.21%.

## Other credit exposure in banking

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

*Short-term commercial transactions.* This type of credit involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. At the end of 2007, commercial exposure came to 1.8 billion euros (outstanding amount). Despite the high proportion of non-investment-grade banks in this exposure (roughly 45%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

*Trading book securities.* Issuer risk (potential loss on default by the issuer) in trading exposure came to 3.8 billion euros at the end of 2007. KBC Financial Products (KBC FP) accounted for 0.8 billion euros of this total. At KBC FP, issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Moreover, only counterparty risk arising with long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) measured on the basis of the market value of the securities came to 3.0 billion euros.  Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposures shown in the table concern the issuer risk measured in the way described in this paragraph. The exposure to asset-backed securities in the trading book is not included in this figure (see 'Credit-linked investments and subprime exposure').

*Counterparty risk in interprofessional transactions* (deposits with professional counterparties and derivatives trading). This reflects the potential loss on transactions should the counterparty default on its obligations. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. At the end of 2007, the group's total pre-settlement risk came to some 34.5 billion euros. Deposits account for slightly more than 40% of this amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Moreover, close-out netting and collateral techniques are used wherever possible. For netting to apply, derivatives transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements. Repo transactions can only be netted if a GMRA has been concluded. In addition, nettability rules have been established for all relevant jurisdictions and all relevant products, based on legal opinions published by ISDA. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

*Government securities in the investment portfolio.* Exposure to governments came to 34.8 billion euros at the end of 2007 (measured in terms of book value) and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.3 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see ALM). However, there are limits for this type of credit exposure, as well, certainly for governments with a lower than 'AA' internal rating.

## OTHER CREDIT EXPOSURE[1]

| Short-term commercial transactions | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Amount (in billions of EUR)[2] | 1.3 | 1.8 |
| By business unit (%) | | |
| Belgium | 3% | 3% |
| CEER | 7% | 6% |
| Merchant Banking | 90% | 91% |
| European Private Banking | – | 0% |
| **Total** | **100%** | **100%** |
| **Issuer risk[3]** | | |
| Amount (in billions of EUR)[2] | 2.3 | 3.8 |
| By business unit (%) | | |
| Belgium | 0% | 0% |
| CEER | 6% | 5% |
| Merchant Banking | 94% | 93% |
| European Private Banking | – | 2% |
| **Total** | **100%** | **100%** |
| **Counterparty risk in interprofessional transactions[4]** | | |
| Amount (in billions of EUR)[2] | 22.3 | 34.5 |
| By business unit (%) | | |
| Belgium | 5% | 0% |
| CEER | 16% | 16% |
| Merchant Banking | 79% | 74% |
| European Private Banking | – | 10% |
| **Total** | **100%** | **100%** |
| **Government bonds in the investment portfolio, incl. KBL EPB** | | |
| Amount (in billions of EUR)[2] | 37.0 | 34.8 |
| By business unit (%) | | |
| Belgium | 8% | 8% |
| CEER | 20% | 26% |
| Merchant Banking | 71% | 59% |
| European Private Banking | – | 8% |
| **Total** | **100%** | **100%** |

1 Figures do not include recent acquisitions (in Russia, Bulgaria and Serbia), except those for 'Government bonds in the investment portfolio'. KBL EPB is included as of 2007.

2 Audited figures.

3 Excluding OECD government bonds.

4 After deduction of collateral and netting benefits. The breakdown by business unit is a rough estimate.

## Country risk, banking

Country risk is managed by setting limits per country and per maturity. It is calculated for each country separately according to a conservative method (see below).

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

Method used to calculate country risk

The following risks are included:
- credit (including so-called medium- and long-term export credit, IFC 'B' loans and performance risks);
- bonds and shares in the investment portfolio;
- placements and (the weighted risk for) other interprofessional transactions (such as exchange transactions and swaps);
- short-term commercial transactions (such as documentary credit and pre-export finance).

In principle, individual transactions are charged against country limits according to the following rules:
- fully fledged guarantees transfer the country risk to the guarantor's country;
- if a transaction is carried out with the office/branch of a company which has its head office in another country, the transaction will be assigned to the country where the office/branch is located, unless the rating of the country where the head office is located is lower, in which case the transaction will be assigned to this last country;
- exposure in the counterparty's national currency and risks in respect of countries in the euro area are not included, but are reported separately.

### COUNTRY RISK (EXCLUDING LOCAL-CURRENCY TRANSACTIONS)*, (31-12-2007)

| In millions of EUR | Total | Western Europe (excl. euro area) | Central and Eastern Europe | Asia | North America | Middle East | Latin America | Africa | Oceania | International institutions |
|---|---|---|---|---|---|---|---|---|---|---|
| **By transaction type** | | | | | | | | | | |
| IFC 'B' loans | 41 | 2 | 1 | 26 | 0 | 0 | 5 | 1 | 0 | 6 |
| Performance risks | 1 063 | 84 | 507 | 31 | 11 | 54 | 223 | 153 | 2 | 0 |
| Other loans | 18 819 | 5 105 | 7 751 | 2 271 | 2 581 | 522 | 287 | 139 | 135 | 27 |
| Bonds and shares | 10 134 | 4 384 | 2 372 | 582 | 1 881 | 119 | 463 | 5 | 115 | 216 |
| Interprofessional transactions (weighted) | 5 955 | 3 151 | 1 014 | 997 | 336 | 141 | 294 | 1 | 12 | 8 |
| Medium- and long-term export finance | 164 | 4 | 39 | 6 | 0 | 5 | 8 | 102 | 0 | 0 |
| Short-term commercial transactions | 1 483 | 42 | 283 | 415 | 11 | 529 | 108 | 95 | 1 | 0 |
| Total | 37 660 | 12 772 | 11 966 | 4 328 | 4 820 | 1 370 | 1 388 | 496 | 266 | 255 |
| **Breakdown by remaining tenor** | | | | | | | | | | |
| Not more than 1 year | 13 022 | 3 914 | 3 970 | 2 737 | 956 | 690 | 542 | 117 | 62 | 35 |
| More than 1 year | 24 638 | 8 857 | 7 997 | 1 591 | 3 864 | 680 | 846 | 378 | 204 | 220 |
| Total | 37 660 | 12 772 | 11 966 | 4 328 | 4 820 | 1 370 | 1 388 | 496 | 266 | 255 |

* Excluding Economic and Investment Bank (Bulgaria).

## Internal credit risk models and Basel II

In order to quantify credit risks, the group has developed various rating models, both for the purpose of determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in such areas as pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the group (for instance, the models for governments, banks, large companies and project finance), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.

Starting in 2007, these models have also formed the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating Based (IRB) Approach. Initially, KBC will use the IRB 'Foundation' Approach, but a switch to the 'Advanced' approach is envisaged in 2011.

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

The far-reaching introduction of rating models in the network has not only stimulated risk-awareness, it has also resulted in the models themselves being constantly tested against the market. Indeed, keeping the rating models up to date is just as important as developing them. An appropriate framework for the governance of the life cycle of risk models is thus in place, with model ownership (the credit function) being separate from responsibility for model validation (the Group Value and Risk Management Directorate). A Model Committee at group level is responsible for the final validation of all models.

## Credit risk, insurance

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

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

KBC is exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with KBC. The credit risk at KBC is measured by means of a nominal approach (the maximum loss) and expected loss. Expected loss is calculated using the internal ratings (when available, otherwise external ratings are used), the exposure at default determined by adding up the net loss reserves and the premiums, and a fixed loss given default percentage of 45%.

### CREDIT EXPOSURE TO (RE)INSURANCE COMPANIES BY RISK CLASS, IN EXPOSURE AT DEFAULT (EAD) AND EXPECTED LOSS (EL)

| In millions of EUR | EAD 2006* | EAD 2007* | EL 2007* |
|---|---|---|---|
| AAA up to and including A- | n.a. | 401.7 | 0.06 |
| BBB+ up to and including BB- | n.a. | 21.5 | 0.04 |
| Below BB- | n.a. | 0.0 | 0.00 |
| Unrated | n.a. | 49.4 | n.a. |
| **Total** | **504.1** | **472.6** | **0.10** |

n.a.: not available.

* EAD: audited figures; EL: unaudited figures.

## Credit-linked investments and subprime exposure

KBC's credit-linked investment exposure is shown in the table and consists of:

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

The subprime-related credit risk attached to the 'main CDO portfolio' is minor, because:

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

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

The 'other portfolios' have no subprime exposure.

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

### CREDIT-LINKED INVESTMENTS[1], KBC GROUP (31-12-2007)

| Description | Amount (in billions of EUR) | Rating of securities held | Of which subprime RMBS | Credit losses incurred | Value adjustments due to marking-to-market of the instruments (in millions of EUR) |
|---|---|---|---|---|---|
| Main CDO portfolio | 6.9 | 100% investment-grade (88% AAA) | 13% subprime RMBS underlying (10 ppts in 2005-2007 vintage) | None | In P/L: 165 (pre-tax) or 109 (after tax) |
| Atomium portfolio | 2.0 | 100% investment-grade (100% AAA) | 33% subprime RMBS | None | In equity: 130 (pre-tax) or 88 (after tax)[2] |
| Other portfolios | 7.4 | 100% investment-grade (94% AAA) | No subprime exposure | None | |

1 Excluding the notes held by KBC in its in-house securitisation vehicle, Home Loan Invest (set up primarily for treasury purposes).

2 There was also a limited impact on the income statement (13 million euros (before tax) or 8 million euros (after tax)) where the trading book is concerned.

Although no credit losses have actually been incurred to date, the group has performed stress tests to estimate possible future credit losses due to defaults on subprime collateral. The scope of these tests covered all investments in CDOs managed by KBC, including those in the Atomium portfolio. The stress tests, which assumed a range of 11% to 20% net losses on all 2005–2007 subprime and Alt-A underlying assets (after recovery of collateral), generated hypothetical losses of between 2 million euros (the 11% test) and 171 million euros (the 20% test).

## Exposure to credit insurers

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

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

Stress tests (assuming 20% to 50% loss on default for exposure to credit insurers in the CDOs) revealed limited hypothetical losses (19 million euros at year-end 2007).

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

# ASSET/LIABILITY MANAGEMENT

## Description

Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:
- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,
- inflation risk,
- credit risk (limited to the investment portfolios).

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

Structural exposure can also be described as a combination of:
- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

## Managing ALM risk

The main purpose of ALM is to optimise the risk/return profile of the group, subject to the risk tolerance limits set by the Board of Directors. ALM risks are managed and monitored by the Group ALCO, which is responsible for establishing a group-wide framework for identifying, measuring and overseeing ALM activities and for taking strategic investment decisions for the entire group. At the subsidiaries outside the euro area, local ALCOs have been set up.

A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM risk management; similar teams exist at the subsidiaries outside the euro area. Risk management responsibilities for the life insurance business (including the tasks of the certifying actuary for the life insurance business and embedded value modelling) are also included in the scope of ALM risk management.

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

The main building blocks of KBC's ALM framework are:
- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity;
- the use of a uniform ALM measurement methodology for banking and insurance activities based on 'fair value models' that forecast

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

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

### KBC GROUP ALM RISK, BY RISK CATEGORY (VAR 99%, 1-YEAR TIME HORIZON, MARGINAL CONTRIBUTION OF VARIOUS RISK TYPES TO VAR)[1]

| In billions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Interest rate risk | 0.60 | 0.37 |
| Equity risk | 1.66 | 1.70 |
| Real estate risk | 0.15 | 0.16 |
| Other risks[2] | 0.11 | 0.09 |
| **Total diversified VAR (group)** | **2.52** | **2.31** |

1 Excluding Absolut Bank, DZI Insurance, A Banka and a number of small group companies.
2 Foreign exchange risk, inflation risk, counterparty risk and interest rate volatility risk.

## ALM in 2007: Interest rate risk

The bank's ALM interest rate positions are managed via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., demand and savings accounts).

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

Two main techniques are used to measure interest rate risks: Basis-Point-Value (BPV) and Value-at-Risk (VAR, see above). The BPV measures the extent to which the value of the portfolio would change if interest rates were to fall by ten basis points across the entire curve (positive figures indicate an increase in the value of the portfolio). BPV limits are set in such a way that interest rate positions combined with the other ALM positions remain within the overall VAR limits. Other techniques such as gap analysis, the duration approach, scenario analysis and stress-testing (both from an economic value perspective and from an income perspective) are also used.

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

## BPV OF THE ALM BOOK OF KBC GROUP BANKS*

| In millions of EUR | |
|---|---|
| Average, 1Q 2006 | 76 |
| Average, 2Q 2006 | 87 |
| Average, 3Q 2006 | 88 |
| Average, 4Q 2006 | 74 |
| 31-12-2006 | 67 |
| Maximum in 2006 | 92 |
| Minimum in 2006 | 66 |
| Average, 1Q 2007 | 70 |
| Average, 2Q 2007 | 54 |
| Average, 3Q 2007 | 44 |
| Average, 4Q 2007 | 46 |
| 31-12-2007 | 48 |
| Maximum in 2007 | 74 |
| Minimum in 2007 | 42 |

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

In keeping with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against capital and reserves. At the level of the KBC Bank group, this risk came to 5.06% at year-end 2007 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which leads to a higher regulatory capital charge).

In the table, the carrying value of assets and liabilities is broken down according to either the contractual repricing date or the maturity date, whichever is earlier, so as to obtain an indication of the length of time for which interest rates are fixed. Derivative financial instruments, which are used mainly to reduce exposure to interest rate movements, are included on the basis of their notional amount and repricing date.

## INTEREST SENSITIVITY GAP OF THE ALM BOOK (INCLUDING DERIVATIVES), KBC GROUP BANKS*

| In millions of EUR | ≤ 1 month | 1–3 months | 3–12 months | 1–5 years | 5–10 years | > 10 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 (derivatives included in inflows and outflows) | | | | | | | | |
| Cash inflows | 94 252 | 56 648 | 82 360 | 116 136 | 49 972 | 20 730 | 25 976 | 446 075 |
| Cash outflows | 110 271 | 51 372 | 78 861 | 119 475 | 42 394 | 16 259 | 27 443 | 446 075 |
| Interest sensitivity gap | -16 020 | 5 276 | 3 500 | -3 339 | 7 578 | 4 471 | -1 467 | 0 |
| 31-12-2007 (derivatives reported separately) | | | | | | | | |
| Cash inflows | 42 116 | 19 569 | 31 710 | 65 179 | 32 023 | 17 079 | 25 123 | 232 799 |
| Cash outflows | 65 448 | 22 301 | 31 171 | 59 208 | 21 259 | 7 144 | 26 268 | 232 799 |
| Derivatives (interest-linked) | 11 456 | 6 857 | 39 | -6 268 | -6 158 | -5 926 | 0 | – |
| Interest sensitivity gap | -11 877 | 4 125 | 578 | -298 | 4 606 | 4 010 | -1 145 | 0 |

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

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

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

## EXPECTED CASHFLOWS (NOT DISCOUNTED), KBC GROUP LIFE INSURANCE*

| In millions of EUR | 0–5 years | 5–10 years | 10–15 years | 15–20 years | > 20 years | Total |
|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 5 013 | 5 689 | 1 720 | 897 | 1 289 | 14 609 |
| Liabilities, guaranteed component | 3 474 | 5 366 | 1 593 | 1 508 | 2 509 | 14 450 |
| Difference in expected cashflows | 1 539 | 322 | 127 | -611 | -1 220 | 158 |
| Mean duration of assets | | | | | | 6.41 years |
| Mean duration of liabilities | | | | | | 8.57 years |
| 31-12-2007 | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 6 808 | 5 038 | 1 819 | 1 118 | 1 093 | 15 876 |
| Liabilities, guaranteed component | 5 014 | 5 487 | 1 703 | 1 564 | 2 525 | 16 294 |
| Difference in expected cashflows | 1 794 | -449 | 116 | -447 | -1 432 | -418 |
| Mean duration of assets | | | | | | 6.30 years |
| Mean duration of liabilities | | | | | | 7.98 years |

* Excluding DZI Insurance and a number of small group companies.

The ALM risks of the group's Belgian insurance activities remained strictly under control in 2007, thanks in part to a strict framework for determining the minimum guarantees provided for new products and the active management of the duration mismatch between investments and liabilities. In Central and Eastern Europe, the strategy of reducing the duration mismatch has been continued, resulting in a consistent strategy group-wide.

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

## IMPACT OF A PARALLEL 1% INCREASE IN THE YIELD CURVE FOR THE KBC GROUP*

| | Impact on net profit (IFRS) | | Impact on economic value | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Belgium Business Unit | 26 | 41 | -329 | -150 |
| CEER Business Unit | -9 | -34 | -93 | -116 |
| Merchant Banking Business Unit | 28 | 19 | -296 | -179 |
| European Private Banking Business Unit | 1 | 1 | -22 | -45 |
| Other | 0 | 0 | -13 | -15 |
| **Total** | **46** | **28** | **-753** | **-504** |

* Excluding Absolut Bank, DZI Insurance, A Banka and a number of small group companies. The figures for 2006 have been restated.

## ALM in 2007: Equity risk

KBC's equity exposure is mainly concentrated in the investment portfolios of KBC Insurance. During 2007, the equity exposure in Central and Eastern Europe was stepped up moderately in order to improve diversification. Apart from the insurance entities, smaller equity portfolios are also held by KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity.

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

## IMPACT OF A 12.5% DROP IN THE EQUITY MARKETS*

| | Impact on net profit (IFRS) | | Impact on economic value | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Belgium Business Unit | -3 | -20 | -402 | -366 |
| CEER Business Unit | 0 | -3 | -11 | -14 |
| Merchant Banking Business Unit | -46 | -53 | -110 | -127 |
| European Private Banking Business Unit | 0 | 0 | -37 | -35 |
| Other | 0 | 0 | -11 | -14 |
| **Total** | **-50** | **-76** | **-570** | **-556** |

* Excluding Absolut Bank, DZI Insurance, A Banka and a number of small group companies. The figures for 2006 have been restated.

## ALM in 2007: Credit risk in the investment portfolios

The ALM portfolios of KBC Insurance represent a material credit risk exposure, which is monitored under the group credit risk framework described above. A number of additional investment guidelines governing the borrowing risk in the fixed-income portfolio of KBC Insurance and Fidea are shown in the table. These guidelines have to be respected by the asset managers who manage the ALM positions of the insurance group. The local ALM risk committees oversee these guidelines, and waivers can only be granted by the Group ALCO.

### A SELECTION OF INVESTMENT GUIDELINES FOR BORROWER RISK IN THE FIXED-INCOME PORTFOLIO, KBC INSURANCE NV AND FIDEA

| | |
|---|---|
| % listed | Minimum 90% |
| % government bonds of OECD countries | Minimum 40% |
| % with A rating or higher | Minimum 95% |
| % with AA rating or higher | Minimum 75% |
| % subordinated bonds | Maximum 15% |
| % corporate bonds | Maximum 20% |

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

## INVESTMENT PORTFOLIO OF KBC GROUP INSURANCE ENTITIES

| Per balance sheet item, in millions of EUR | Carrying value 31-12-2006 | Carrying value 31-12-2007 | Market value 31-12-2006 | Market value 31-12-2007 |
|---|---|---|---|---|
| Securities | 17 682 | 18 991 | 17 795 | 19 013 |
| Bonds and other fixed-income securities | 13 145 | 14 643 | 13 258 | 14 666 |
| Held to maturity | 2 907 | 2 745 | 3 021 | 2 768 |
| Available for sale | 9 042 | 10 272 | 9 042 | 10 272 |
| At fair value through profit or loss (FIFV) | 1 196 | 1 626 | 1 196 | 1 626 |
| Shares and other variable-yield securities | 4 529 | 4 328 | 4 529 | 4 328 |
| Available for sale | 4 361 | 4 122 | 4 361 | 4 122 |
| At fair value through profit or loss (FIFV) | 168 | 206 | 168 | 206 |
| Other | 8 | 20 | 8 | 20 |
| Loans and advances to customers | 148 | 156 | 148 | 156 |
| Loans and advances to banks | 1 002 | 1 775 | 1 002 | 1 732 |
| Property and equipment and investment property | 228 | 285 | 296 | 384 |
| Investments in associated companies | 3 | 3 | 3 | 3 |
| Other | 128 | 109 | 128 | 109 |
| Investment contracts, unit-linked | 9 367 | 9 099 | 9 367 | 9 099 |
| **Total** | **28 558** | **30 417** | **28 739** | **30 495** |

## INVESTMENT PORTFOLIO OF KBC GROUP INSURANCE ENTITIES (continued)

| Bond portfolio details | 31-12-2006 | 31-12-2007 |
|---|---|---|
| By rating[1] | | |
| AA- and higher | 79% | 74% |
| A- and higher | 99% | 98% |
| BBB- and higher | 100% | 100% |
| By sector[1] | | |
| Governments[2] | 81% | 73% |
| Financial | 14% | 19% |
| Other | 5% | 7% |
| **Total** | **100%** | **100%** |
| By currency[1] | | |
| Euro | 90% | 89% |
| Other European currencies | 9% | 10% |
| US dollar | 1% | 1% |
| **Total** | **100%** | **100%** |
| By remaining tenor[1] | | |
| Not more than 1 year | 6% | 7% |
| Between 1 and 3 years | 14% | 14% |
| Between 3 and 5 years | 14% | 21% |
| Between 5 and 10 years | 42% | 34% |
| More than 10 years | 25% | 25% |
| **Total** | **100%** | **100%** |
| **Equity portfolio details** | | |
| By sector[1] | | |
| Financial | 36% | 29% |
| Consumer non-cyclical | 12% | 15% |
| Communication | 10% | 7% |
| Energy | 8% | 8% |
| Industrial | 6% | 7% |
| Utilities | 9% | 10% |
| Consumer cyclical | 8% | 9% |
| Basic materials | 5% | 7% |
| Other | 5% | 7% |
| **Total** | **100%** | **100%** |

1 The scope does not include investments for unit-linked life insurance and DZI Insurance, hence it differs from the scope of the figures for the breakdown per balance sheet item at the top of the table.
2 Government bonds amounted to 10 billion euros at 31 December 2007.

Bonds with a rating below BBB- and bonds in non-European currencies are avoided by explicitly excluding them from the benchmark guidelines for the managers of insurance portfolios. BBB- is the purchase limit and bonds whose rating has been downgraded below BB- must be sold.

## ALM in 2007: Real estate risk

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

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

### IMPACT OF A 10% DROP IN REAL ESTATE PRICES*

| | Impact on economic value | |
|---|---|---|
| In millions of EUR | 2006 | 2007 |
| Bank portfolios | -70 | -73 |
| Insurance portfolios | -52 | -51 |
| **Total** | **-122** | **-124** |

* Excluding Absolut Bank, DZI Insurance, A Banka and a number of small group companies.

## ALM in 2007: Foreign exchange risk

KBC pursues a prudent policy as regards its structural currency exposure, essentially seeking to avoid currency risk. FX exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The FX exposure of banking entities without a trading book, of the insurance entities and of other entities has to be hedged, if material.
Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

## ALM in 2007: Liability adequacy in the life insurance business

KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and has already built up sizeable supplementary reserves, primarily for those products that are most susceptible to interest rate risk. For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a discount rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC Insurance and Fidea to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds). Although the regulator allows exceptions to the flashing lights system to be applied for, KBC has never resorted to this option. The various group companies conduct 'liability adequacy tests' (LAT) that meet the relevant local and IFRS requirements. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market-value margins are built in to deal with the factor of uncertainty in a number of parameters. These analyses show that the life reserves are adequate. Deficiencies were recorded only for the life insurance business in the Czech Republic, and a deficiency reserve has been set aside for this (since 2004). At year-end 2007, the outstanding deficiency reserve at KBC group level amounted to 18.5 million euros.

BREAKDOWN OF THE RESERVES FOR NON-LINKED LIFE INSURANCE BY INTEREST GUARANTEE, KBC GROUP INSURANCE ENTITIES

| In % | 31-12-2006[2] | 31-12-2007 |
|---|---|---|
| 5% and 6%[1] | 4% | 4% |
| 4.75% | 22% | 17% |
| 4.00% | 1% | 1% |
| 3.75% | 12% | 11% |
| 3.50% | 0% | 6% |
| 3.25% and 3.30% | 32% | 30% |
| 3.00% | 10% | 11% |
| 2.75% | 2% | 2% |
| 2.50% | 12% | 13% |
| 1.75% | 0% | 1% |
| 0.00% | 0% | 2% |
| Other | 4% | 3% |
| Total | 100% | 100% |

1 Contracts in Central and Eastern Europe.
2 The figures for 2006 have been restated.

## ALM in 2007: Embedded value in the life insurance business

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

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

Detailed embedded value information for year-end 2007 will be published in the first half of 2008.

## LIQUIDITY RISK MANAGEMENT

### Description

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

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

### Managing liquidity risk

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

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

- Contingency liquidity risk
  Contingency liquidity risk is assessed on the basis of several liquidity stress tests, which measure how the liquidity buffer of KBC group banks changes under stressed scenarios. The liquidity buffer is based on assumptions regarding liquidity outflows (e.g., retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.), as well as on assumptions regarding inflows resulting from actions to increase liquidity (e.g., 'repoing' the bond portfolio, reducing unsecured interbank lending, etc.).
  The liquidity buffer should be sufficient to cover liquidity needs (net cash and collateral outflows) over (a) a period that is required to restore market confidence in the group following a KBC-specific event and (b) a period that is required for markets to stabilise after a general market event. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core business of the banking group.

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

## KBC GROUP: FUNDING SOURCES

| | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Deposits from credit institutions and investment firms* | 25% | 27% |
| Deposits from customers | 53% | 52% |
| Non-subordinated debt securities | 20% | 18% |
| Subordinated debt | 2% | 3% |
| **Total** | **100%** | **100%** |
| In millions of EUR | 239 258 | 265 239 |

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

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

The table illustrates liquidity risk by grouping the cash inflows and outflows on the balance sheet date according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. The 'not defined' bucket comprises mainly deposits that are payable on demand (73 billion euros), as well as the undrawn margin on confirmed credit lines (42 billion euros). The 2006 figures were restated in order to comply with the new IFRS 7 requirements.

## LIQUIDITY RISK, KBC GROUP BANKS*

| In millions of EUR | ≤ 1 month | 1–3 months | 3–12 months | 1–5 years | 5–10 years | > 10 years | Not defined | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Cash inflows | 99 464 | 30 176 | 34 562 | 67 259 | 35 079 | 25 270 | 38 900 | 330 710 |
| Cash outflows | 115 089 | 34 139 | 31 621 | 25 803 | 8 852 | 7 850 | 148 767 | 372 122 |
| Net liquidity gap | -15 626 | -3 963 | 2 941 | 41 456 | 26 228 | 17 419 | -109 867 | -41 412 |
| 31-12-2007 | | | | | | | | |
| Cash inflows | 99 330 | 43 828 | 43 286 | 65 433 | 33 498 | 27 179 | 48 491 | 361 043 |
| Cash outflows | 114 537 | 46 430 | 33 091 | 34 891 | 11 226 | 9 514 | 158 964 | 408 653 |
| Net liquidity gap | -15 206 | -2 603 | 10 194 | 30 542 | 22 271 | 17 665 | -110 473 | -47 610 |

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

## MARKET RISK MANAGEMENT

### Description

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

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

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

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

### Risk governance

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

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

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

## Managing market risk

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

KBC uses the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). In 2007, KBC switched from a data window of 250 to 500 scenario dates, thereby increasing stability without disregarding changing market conditions.
The VAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.
The VAR model is subject to limitations as well, given the fact that it cannot encompass all potential extreme events. Therefore, VAR calculations are supplemented by extensive stress-tests, the results of which are communicated to the Group Trading Risk Committee. Whereas the VAR model captures potential losses under normal market conditions, stress-tests show the impact of exceptional circumstances and events with a low degree of probability that are not always reflected in the ordinary risk indicators. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market.

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

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

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

## Risk analysis and quantification

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

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

The reliability of the VAR model is tested daily via a back-test, which compares the one-day VAR figure with the 'no-action P&L' (i.e. the result calculated for a position that is the same as the previous day's). This is done both at the top level and at the level of the different entities and desks.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 25.

## MARKET RISK (VAR, 1-DAY HOLDING PERIOD)

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

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

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

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

## Risk infrastructure

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

# OPERATIONAL RISK MANAGEMENT

## Description

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

## Managing operational risk

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

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

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

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

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

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

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

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

## The building blocks for managing operational risks

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

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

## Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under pillar 1 of Basel II. The operational risk capital for the group's banking and insurance entities totalled 1.25 billion euros at the end of 2007.

# TECHNICAL INSURANCE RISK MANAGEMENT

## Description

Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. All these risks are kept under control, thanks to appropriate acceptance, pricing, claims reserve, reinsurance and claims control policies of line management and to independent insurance risk management.

## Managing technical insurance risk

The management of insurance risk is also founded on the principle that primary responsibility for risk control lies with line management, and that the entities responsible for value and risk management should operate independently of line management. The mission of the Insurance Risk Management Division in the Group Value and Risk Management Directorate is to develop a group-wide framework for managing insurance risks. The insurance companies have local value and risk management entities that report to the member of the local executive committee in charge of value and risk management. At group level, the Insurance Risk Management Division is responsible for providing support for local implementation and organisation processes and for the functional direction of the insurance risk management process of these subsidiary entities. Since risk management responsibilities overlap those of the certifying actuary to a considerable extent, this actuary is generally employed in the central or local risk management unit.

## Risk modelling

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

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

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

Moreover, these models are used for internal and external reporting purposes (to support the advice of the certifying actuary, to report to internal and external auditors, regulators and rating agencies, to prepare for Solvency 2, etc.).
The main concentration risk, i.e. overall group-wide exposure to material natural catastrophe events, affecting property insurance portfolios has been modelled extensively.

## Stress testing

The sensitivity of the actual technical insurance results to extreme events is tested, for instance, under the International Monetary Fund's 'Financial Sector Assessment Program'. This program is used to estimate the impact, on a gross and net of reinsurance basis, of claims that are twice as large as the ones generated by the most significant natural disaster of the last 20 years (the Daria windstorm of 1990).

KBC's internal natural catastrophe models are able to estimate the anticipated claim costs, should natural catastrophes that have been observed in the past occur again today. Moreover, they can determine the expected impact on bottom-line economic profit of natural catastrophe events, which are expected to occur on average only once within a given time frame (e.g., 100 or 250 years). A back-test, performed after windstorm Kyrill swept across Europe in the first quarter of 2007, has confirmed our models.

For the life insurance business, a sensitivity analysis is typically performed within the framework of the annual calculation of the embedded value. The results for three types of sensitivity to insurance risk are reported, viz. 'mortality rate: plus and minus 10%', 'lapses: plus and minus 10%', 'expenses: plus and minus 10%'.

## Reinsurance

The insurance portfolios are protected against the impact of serious claims by means of reinsurance. These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and re-negotiated every year.

Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes, especially with a view to creating shareholder value. This approach has already resulted in optimising the retention of the KBC group in 2007 and 2008 in respect of its exposure to natural catastrophe risk.

## Technical provisions and loss triangles, non-life

As part of its mission to independently monitor insurance risks, the Group Value and Risk Management Directorate regularly carries out in-depth studies. They confirm that there is a high degree of probability that the technical provisions at subsidiary level are adequate. These liability adequacy tests are performed per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, Fidea, ČSOB Insurance (Czech Republic), K&H Insurance, Secura, Assurisk (from financial year 2005) and WARTA (from financial year 2004). These companies combined account for 97% of the total provisions for claims to be paid at the close of 2007. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2007.

### LOSS TRIANGLES, KBC INSURANCE

| In millions of EUR | Year of occurrence 2001 | Year of occurrence 2002 | Year of occurrence 2003 | Year of occurrence 2004[1] | Year of occurrence 2005[2] | Year of occurrence 2006 | Year of occurrence 2007 |
|---|---|---|---|---|---|---|---|
| Estimate at the end of the year of occurrence | 812 | 925 | 774 | 1 106 | 1 137 | 1 220 | 1 294 |
| 1 year later | 756 | 813 | 806 | 1 006 | 1 040 | 1 110 | – |
| 2 years later | 706 | 829 | 773 | 962 | 1 004 | – | – |
| 3 years later | 729 | 823 | 754 | 948 | – | – | – |
| 4 years later | 721 | 814 | 737 | – | – | – | – |
| 5 years later | 709 | 797 | – | – | – | – | – |
| 6 years later | 715 | – | – | – | – | – | – |
| Current estimate | 715 | 797 | 737 | 948 | 1 004 | 1 110 | 1 294 |
| Cumulative payments | -544 | -630 | -534 | -700 | -682 | -649 | -463 |
| Current provisions | 171 | 167 | 203 | 249 | 322 | 461 | 831 |

1 From the 2004 financial year, WARTA's figures have been included. If this company were not taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 692 for 2001; 774 for 2002; and 690 for 2003.

2 From the 2005 financial year, Assurisk's figures have been included. If these figures were not taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 716 for 2001; 815 for 2002; 772 for 2003; and 978 for 2004.

## SOLVENCY AND ECONOMIC CAPITAL

### Description

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

### Managing solvency

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

Solvency, insurance: KBC reports its insurance solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator (as new guidelines are expected in 2008, the calculation method may change). A detailed calculation is given in this section. Although the regulatory minimum for the solvency ratio is 100%, KBC's in-house target is 200% (i.e. twice the regulatory minimum) (with no hybrid elements at this time).

Group solvency: KBC reports its group solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator (using the so-called 'building block' method). In short, this entails comparing group regulatory capital (i.e. parent shareholders' equity less intangible assets and a portion of the revaluation reserve for available-for-sale assets, plus subordinated debt, etc.) with the sum of the separate minimum regulatory solvency requirements for KBC Bank, KBL EPB and the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The surplus above the minimum regulatory capital reflects the high internal solvency targets for the banking and insurance businesses (twice the regulatory minimum).

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

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

## Solvency in 2007, group overview

### SOLVENCY OVERVIEW, KBC GROUP

| In millions of EUR | 31-12-2006 Basel I Solvency I | Basel I Solvency I | 31-12-2007 Basel II |
|---|---|---|---|
| KBC Group NV | | | |
| Total regulatory capital | 18 973 | 19 057 | 19 194 |
| Required minimum regulatory capital | 11 201 | 13 274 | 11 760 |
| Surplus above minimum regulatory capital | 7 772 | 5 783 | 7 434 |
| KBC Bank | | | |
| Tier-1 capital* | 10 407 | 11 525 | 10 942 |
| Total regulatory capital | 13 728 | 15 543 | 15 723 |
| Required regulatory capital (CAD) | 9 850 | 11 796 | 10 283 |
| Tier-1 ratio | 8.5% | 7.8% | 8.5% |
| CAD ratio | 11.1% | 10.5% | 12.2% |
| KBL EPB | | | |
| Tier-1 capital* | 846 | 881 | – |
| Total regulatory capital | 1 413 | 1 447 | – |
| Required regulatory capital (CAD) | 467 | 529 | – |
| Tier-1 ratio | 14.5% | 13.3% | – |
| CAD ratio | 24.2% | 21.9% | – |
| KBC Insurance | | | |
| Available capital* | 3 308 | 2 641 | – |
| Required regulatory capital | 884 | 997 | – |
| Solvency ratio | 374% | 265% | – |

* Audited figures.

## Solvency in 2007, KBC Bank (consolidated)

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

The calculation based on Basel I follows the same methodology used in calculating the ratios in earlier annual reports.

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

| In millions of EUR | 31-12-2006 Basel I | Basel I | 31-12-2007 Basel II |
|---|---|---|---|
| Total regulatory capital, after profit appropriation | 13 728 | 15 543 | 15 723 |
| Tier-1 capital | 10 407 | 11 525 | 10 942 |
| Parent shareholders' equity | 10 603 | 12 342 | 12 342 |
| Intangible fixed assets (-) | -123 | -197 | -197 |
| Goodwill on consolidation (-) | -709 | -1 811 | -1 811 |
| Preference shares, hybrid tier-1 | 1 561 | 1 694 | 1 694 |
| Minority interests | 529 | 584 | 584 |
| Mandatorily convertible bonds | -186 | -186 | -186 |
| Revaluation reserve, available-for-sale assets (-) | -555 | 46 | 46 |
| Hedging reserve, cashflow hedges (-) | -46 | -73 | -73 |
| Minority interests in available-for-sale reserve and hedging reserve (-) | -7 | 2 | 2 |
| Dividend payout assumed (-) | -661 | -876 | -876 |
| Items to be deducted (-) | – | – | -583 |
| Tier-2- and tier-3 capital | 3 321 | 4 018 | 4 782 |
| Mandatorily convertible bonds | 186 | 186 | 186 |
| Perpetuals (including hybrid tier-1 not used in tier-1 capital) | 712 | 581 | 581 |
| Revaluation reserve, available-for-sale shares (at 90%) | 433 | 154 | 154 |
| Minority interests in revaluation reserve, available-for-sale shares (at 90%) | 3 | 2 | 2 |
| IRB provision excess (+) | – | – | 139 |
| Subordinated liabilities | 3 311 | 4 285 | 4 285 |
| Tier-3 capital | 14 | 18 | 18 |
| Items to be deducted (-) | -1 339 | -1 208 | -583 |
| Total weighted risks | 123 127 | 147 444 | 128 536 |
| Credit risk | 113 264 | 136 677 | 107 461 |
| Market risk | 9 863 | 10 767 | 12 329 |
| Operational risk | – | – | 8 747 |
| Solvency ratios | | | |
| Tier-1 ratio | 8.5% | 7.8% | 8.5% |
| CAD ratio | 11.1% | 10.5% | 12.2% |

## Solvency in 2007, KBL EPB (consolidated)

| In millions of EUR | 31-12-2006 Basel I | 31-12-2007 Basel I |
|---|---|---|
| Total regulatory capital, after profit appropriation | 1 413 | 1 447 |
| Tier-1 capital | 846 | 881 |
| Parent shareholders' equity | 1 737 | 1 308 |
| Intangible fixed assets (-) | -46 | -47 |
| Goodwill on consolidation (-) | -239 | -242 |
| Preference shares, hybrid tier-1 | 110 | 121 |
| Minority interests | 0 | 0 |
| Mandatorily convertible bonds | -18 | -18 |
| Revaluation reserve, available-for-sale assets (-) | -118 | -39 |
| Hedging reserve, cashflow hedges (-) | 0 | 0 |
| Minority interests in available-for-sale reserve and hedging reserve (-) | 0 | 0 |
| Dividend payout assumed (-) | -581 | -201 |
| Items to be deducted (-) | – | – |
| Tier-2 and tier-3 capital | 567 | 565 |
| Mandatorily convertible bonds | 0 | 0 |
| Perpetuals (including hybrid tier-1 not used in tier-1 capital) | 18 | 18 |
| Revaluation reserve, available-for-sale shares (at 90%) | 105 | 79 |
| Minority interests in revaluation reserve, available-for-sale shares (at 90%) | 0 | 0 |
| IRB provision excess (+) | – | – |
| Subordinated liabilities | 452 | 469 |
| Tier-3 capital | 0 | 0 |
| Items to be deducted (-) | -8 | -1 |
| Total weighted risks | 5 841 | 6 610 |
| Credit risk | 5 065 | 5 954 |
| Market risk | 776 | 655 |
| Operational risk | – | – |
| Solvency ratios | | |
| Tier-1 ratio | 14.5% | 13.3% |
| CAD ratio | 24.2% | 21.9% |

## Solvency in 2007, KBC Insurance (consolidated)

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Available capital | 3 308 | 2 641 |
| Share capital | 29 | 29 |
| Share premium | 122 | 122 |
| Reserves | 2 301 | 2 600 |
| Revaluation reserve, available-for-sale investments | 1 459 | 953 |
| Translation differences | 27 | 37 |
| Dividend payout (-) | -430 | -617 |
| Minority interests | 13 | 35 |
| Subordinated liabilities | 1 | 0 |
| Formation expenses (-) | 0 | 0 |
| Intangible fixed assets (-) | -19 | -24 |
| Goodwill on consolidation (-) | -195 | -495 |
| Required solvency margin | 884 | 997 |
| Non-life and industrial accident (legal lines) | 268 | 301 |
| Annuities | 8 | 8 |
| Subtotal, non-life insurance | 276 | 308 |
| Class-21 life insurance | 589 | 661 |
| Class-23 life insurance | 20 | 24 |
| Subtotal, life insurance | 609 | 685 |
| Other | 0 | 4 |
| Solvency ratio and surplus | | |
| Solvency ratio (%) | 374% | 265% |
| Solvency surplus (in millions of EUR) | 2 423 | 1 643 |

## Economic capital

Economic capital is used to measure the overall risk KBC is exposed to through its various activities and because of a variety of risk factors. The figures generated are reported regularly at meetings of the Group Executive Committee, the Audit Committee and the Board of Directors.

KBC defines economic capital as the unexpected loss in fair value that the group might incur over a one-year time horizon, with a confidence level of 99.96%. Calculations are performed per risk category using a common denominator (the same time horizon of one year and the same confidence interval of 99.96%) and then aggregated, with account being taken of the correlations between the various risk factors and activities.

As mentioned previously, economic capital is used as a major building block for ICAAP (Basel II, pillar 2). In addition, it provides essential input for internal valuation models, such as the Market Consistent Embedded Value model (see ALM).

The breakdown of KBC's economic capital per risk type is provided in the table.

| Economic capital distribution, KBC group | 2007* |
|---|---|
| Credit risk | 41% |
| ALM risk | 29% |
| Market risk | 4% |
| Business risk | 11% |
| Operational risk | 8% |
| Insurance risk | 6% |
| **Total** | **100%** |

* End of September.

# Corporate Social Responsibility

La Gamme d'Amour, James Ensor

**Marina Kanamori, KBC Group CSR Communications Officer:**

**Our group is totally convinced that corporate social responsibility contributes to the creation of long-term value for all our stakeholders. The fact that we are rooted locally ensures that we are deeply involved in the various aspects of the community in all our home markets.**

## BACKGROUND

This section summarises the group's initiatives and achievements in corporate social responsibility in 2007. More information can be found at www.kbc.com/social_responsibility and in the annual *KBC Corporate Social Responsibility Report*.

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

KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in its *Principles for Socially Responsible Business*.
As a member of local CSR organisations and signatory to national and international CSR principles (including the United Nations *Global Compact* and the Luxembourg *Charte d'entreprise pour la responsabilité sociale et le développement durable*), KBC intends to enter into a proactive commitment vis-à-vis its stakeholders.
Since 2005, the group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on KBC staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles. Also in 2007, KBC's subsidiaries, K&H Bank in Hungary and ČSOB in the Czech Republic, published their own separate CSR reports for the first time.

## BUSINESS ETHICS

The most important business ethics guidelines are contained in the *Code of Conduct for KBC Group Employees*, a uniform set of rules for all KBC employees governing their professional conduct towards their employer, customers and suppliers, colleagues, society, competitors and the media.

The group has also drawn up mission statements attesting to its commitment to combat corruption and respect human rights, and specific rules are in place governing conduct in certain areas or activities (for instance, the dealing rooms, asset management, or departments handling medical information). There are also specific restrictions limiting trading in securities by staff who have access to price-sensitive information. The Compliance Division ensures that the guidelines relating to financial ethics, including guidelines prohibiting market abuse, money-laundering practices and other fraudulent activities, are observed and that information remains confidential and privacy is respected. Lastly, there is an official policy for the protection of whistleblowers in the group.

In addition to the existing rules and CSR principles applying to lending and investment activities, which address issues such as environmental concerns and the arms trade, a new group-wide *General Investment Policy* was drawn up in 2007, modelled on the UN's *Principles for Responsible Investment* (PRI).
In the field of lending, KBC also endorses the *Equator Principles*, a set of guidelines for managing the environmental and social risks attached to large- and medium-scale project finance activities, which are based on the policy guidelines of the International Finance Corporation (IFC) and the World Bank.

## THE ENVIRONMENT

KBC is aware that, even as a service company, it has an impact on the environment by way of the buildings and office space it occupies and the emissions resulting from commuter and business travel.
To convince all group entities of the need to reduce their ecological footprint by making more rational use of natural resources, a group-wide *Environmental Policy* came into effect in 2007. This policy deals with the efficient consumption of energy, water and paper, with waste management, and with business travel and curtailing the emission of greenhouse gases.
Moreover, for the fifth year in a row, KBC took part in the Carbon Disclosure Project, which examines how large companies deal with climate change and looks at their greenhouse gas emissions. As part of the CSR action plan for 2008, KBC is drawing up a specific policy on climate change and carbon emissions.

In 2007, KBC Asset Management launched its first socially responsible investment (SRI) fund dedicated to climate change, and the Belgium Business Unit set itself the target of achieving carbon neutrality (completely offsetting all carbon emissions) at all its Belgian establishments by 2010. Under the Forest Stewardship Covenant (FSC), the Belgium Business Unit is aiming to reduce paper use by 5% and switch to FSC-labelled or recycled paper within three years.

The group's collaboration with ARGUS, KBC and Cera's environmental centre, led to the launch of several green initiatives in 2007, including the creation, in cooperation with KBC Lease Group, of a 'GreenLease' label for fleet operators.

Central and Eastern European group companies are contributing to environmental improvement, too. In the Czech Republic, for instance, ČSOB's new head office building (designed in accordance with Czech and EU environmental standards) was named 'Building of the Year 2007'. It was also nominated by the American 'Leadership in Energy and Environmental Design' (LEED) certification system as one of the most environmentally-friendly bank buildings in Europe. In Hungary, K&H Bank is one of five Hungarian companies to compete for the European Energy Trophy, a competition to reduce carbon emissions by lowering energy consumption and raising employee awareness of environmental issues.

## ENVIRONMENTAL EFFICIENCY DATA FOR THE KBC GROUP (PARTIAL), 2007[1]

| Per FTE | |
|---|---|
| **Energy consumption (in GJ)** | |
| Electricity | 21.6 |
| Fossil fuels (gas, heating oil, coal) | 12.5 |
| Other | 6.3 |
| **Distances travelled (in km)** | |
| Commuter travel | 7 627 |
| Business travel | 2 991 |
| **Paper and water consumption, waste** | |
| Paper (in tonnes) | 0.15 |
| Water (in $m^3$) | 15.4 |
| Waste (in tonnes) | 0.33 |
| **Greenhouse gas emissions (in tonnes)[2]** | 2.5 |

1 Based on data for a significant proportion of the group (between 55% and 84% of the total number of FTEs). Changes in the scope and methodology make comparison with the 2006 figures meaningless.
2 Only related to direct energy consumption (i.e. not to indirect consumption of energy by means of transport).

## COMMUNITY INVOLVEMENT

KBC aims to make a positive contribution to the community to which it belongs, in all the major markets where it operates. It does so by taking initiatives itself and by providing financial support to external projects that meet its requirements as regards community involvement.

In practice, the group's community involvement is evidenced mainly by its support of cultural and philanthropic initiatives, with a particular focus on community building, the integration of disadvantaged persons in society, health issues, education and help for the elderly, orphans and disabled children. Through its solidarity fund, KBC also encourages its employees to become involved in society.

In its cultural sponsorship, KBC supports mainly local and low-threshold projects. In Belgium, one of the initiatives sponsored by KBC is the *Gouden Vleugels* project for young musical talent. In the Czech Republic and Slovakia, ČSOB has been sponsoring film festivals for many years, while K&H Bank in Hungary, Kredyt Bank and WARTA in Poland, A Banka in Serbia and IIB Bank in Ireland are actively involved in supporting the world of music and theatre. For its part, KBL EPB backed many cultural events and organisations again in 2007, including the Grand Théâtre de Luxembourg, the Philharmonie Luxembourg, and Mudam (Musée d'Art Moderne Grand-Duc Jean), Luxembourg's contemporary art museum.

KBC supports patronage projects in the areas of health and child welfare, too. In Belgium, the group backs charities such as *Levenslijn* and *CAP48* (fundraising organisations for healthcare in Flanders and Wallonia, respectively) and the anti-cancer drive, *Kom op tegen Kanker*. In Poland, both Kredyt Bank and WARTA support the *Postcard to Santa Claus* campaign, which provides presents to children in Polish orphanages, while WARTA also raises funds for orphanages via the WARTA Foundation. In Hungary, K&H Bank is involved in the *Magic Cure Programme* for providing medical equipment to children's hospitals. Moreover, K&H Bank received the 'Best Business Donor' award from the Hungarian Donors' Forum in 2007, for making the biggest donation in 2006, comparatively speaking. The KBC group companies based in the UK (KBC Bank, KBC Peel Hunt, KBC Financial Products and KBC Asset Management) together launched a fundraising campaign for Starlight, a charity that aims to brighten the lives of seriously and terminally ill children.

Through its group companies, KBL EPB also backs various charity drives and healthcare and child welfare organisations in several European countries.

Lastly, as already mentioned above, KBC encourages its employees to become socially involved in the community. In Belgium, the group subsidises employees who do volunteer work. KBL has followed suit in Luxembourg, where a Social Sponsorship Committee selects employees' social projects to subsidise. KBC also backs the *Belgian Raiffeisen Foundation* (BRS) through the participation of employees in various microfinance projects sponsored by BRS in the developing world.

## RESPONSIBILITY TOWARDS EMPLOYEES

KBC's employees are one of the group's most important stakeholders. Group HR is responsible for succession management, talent and competence management, and for handling personnel issues for the entire group. The local HR departments at the subsidiaries are in charge of implementing the relevant group policy and standards, and they take additional initiatives adapted to local market conditions.

### Employee satisfaction

Because employee motivation, dynamism and satisfaction are the driving force behind much of the success of any company, particularly of financial institutions, KBC regularly measures levels of satisfaction and involvement by surveying its staff. It uses the findings of these surveys to take specific measures. These surveys have revealed that employee satisfaction has improved in recent years.

Through continual assessment and by modifying and making its remuneration policy more transparent, the group aims to increase its staff's development potential and to pay them a fair salary. KBC also takes account of the impact of developments in society at large, such as traffic congestion and the need for childcare. For instance, a number of flexible working arrangements are in place in Belgium and Central and Eastern Europe, as are pilot projects for teleworking. In 2007, KBC was again named one of the best employers in Belgium following a survey organised by *Vacature*, the Vlerick Leuven Gent Management School and the Great Place to Work® Institute.

## Equal treatment and anti-discrimination

In its staff regulations, its selection and promotion policy, and its performance appraisal systems, the KBC group does not make any distinction whatsoever on the grounds of sex, religion, ethnic background, sexual orientation, etc. Moreover, KBC prohibits all forms of discrimination during its recruitment and promotion processes. In Belgium, KBC endorses the *Vlaams Manifest van het Bedrijfsleven tegen Sociale Uitsluiting van Migranten* (Flemish Trade and Industry Manifesto against the Social Exclusion of Migrants) drawn up by the Flemish employer's federation and has also signed up to the anti-racism charter, *Ondernemers tegen racisme en voor diversiteit*, of the Brussels Region.

## Social dialogue

KBC works very closely with the employee organisations, holding monthly talks with the works council and its committees, and consulting with the health and safety committees and union representatives. Its establishments in Central and Eastern Europe also participate in the European Works Council.

In 2007, KBC was one of thirty-five multinational financial service-providers surveyed by UNIFinance, an international trade union for employees in the financial sector, regarding its approach to CSR and labour relations (in particular, freedom of association and the right to collective bargaining). KBC came out of this survey amongst the top four in terms of social dialogue.

## Developing talent and managing knowledge

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

Given the large number of new people recruited, training efforts were again focused on new employees in 2007. For instance, recently recruited employees with a university degree are automatically enrolled in the *KBC Master's programme*, which covers every aspect of the group. Since KBC is an international group, language training courses receive a good deal of attention, as well. A whole range of specific or specialised training courses were again offered within the group. Lastly, KBC invests considerably in non-job-related training outside office hours, as the group believes that broad personal development has a positive effect on performance in the workplace.

## NUMBER OF STAFF, KBC GROUP

| | 31-12-2006 | 31-12-2007 |
|---|---|---|
| In FTEs* | 49 492 | 56 715 |
| In % | | |
| Banking | 73% | 73% |
| Insurance | 14% | 14% |
| European private banking | 5% | 5% |
| Holding-company activities, including Gevaert | 7% | 7% |
| Belgium | 38% | 34% |
| Central & Eastern Europe and Russia | 51% | 56% |
| Rest of the world | 11% | 10% |
| Senior management | 3% | 3% |
| Junior and middle management | 32% | 34% |
| Administrative staff | 65% | 63% |
| Men | 43% | 42% |
| Women | 57% | 58% |
| Full-time (100%) | 85% | 84% |
| Part-time (80%–100%) | 8% | 8% |
| Part-time < 80% | 8% | 8% |

* KBC Bank, KBC Insurance, KBL EPB and KBC Group NV (the holding company), including the principal subsidiaries in which they have a majority shareholding. The figures do not include the distribution network of the insurance companies.

## RESPONSIBILITY TOWARDS CUSTOMERS

KBC group sets great store by customer-friendliness. It attaches a good deal of importance to expertise and professionalism, and aims to provide the best solutions for its customers. However, the group also strives to be a responsible bancassurer through, for example, paying a good deal of attention to the privacy of its customers and providing information that is as clear and accurate as possible. Moreover, KBC continuously tailors its products and services to its customers' needs and wants. The effectiveness of this is regularly checked in the customer satisfaction surveys (for more information on the results of the satisfaction survey in Belgium, see the section on the Belgium Business Unit). Additionally, to ensure that customer complaints are handled as efficiently as possible, KBC drew up new instructions for the entire group for handling customer complaints in 2007 and is set to implement them in 2008.

To meet the rising demand for responsible or ethical products and services, KBC offers special terms or products for the disabled, young people and senior citizens. The group's insurance companies have also set up accident-prevention campaigns in relation to fire prevention and road safety. In addition, the group has been providing an extensive range of SRI funds to its customers in Belgium for some years now, and introduced similar funds in Central and Eastern Europe and other regions in 2007. Indeed, the Hungarian version of the KBC Eco funds received first prize in the category 'Savings Product of the Year' at MasterCard's annual 'Bank of the Year' awards ceremony. Lastly, in Luxembourg, KBL EPB supports the 'Rural Impulse Fund', which invests in microfinance companies in developing countries.

# Corporate Governance

La Gamme d'Amour, James Ensor

## BACKGROUND

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

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

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

All points that must be disclosed under the Code are covered below. Unless otherwise indicated, the period dealt with in this Chapter runs from 1 January 2007 to 31 December 2007.

## UPDATED CHARTER OF KBC GROUP NV

On 27 September 2007, the Board of Directors approved a number of changes to the Charter of KBC Group NV. These changes do not relate to the basic corporate governance principles, but are rather updates prompted by a number of internal developments since the publication of the Charter on 1 January 2006, viz.:

- the restructuring of the KBC group's operational organisation;
- changes in the group structure;
- amendments to the articles of association (including the change in the amount of issued share capital);
- updated information on the percentage of capital held by the core shareholders;
- the remuneration paid to members of the Audit Committee;
- the introduction of internal rules on external offices held by executives and directors of KBC Group NV;
- the 'dematerialisation' of securities.

These changes do not constitute non-compliance with the Corporate Governance Code published on 9 December 2004.

## COMPOSITION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Composition of the Board of Directors on 31 December 2007

The table shows the members of the Board of Directors and its committees on 31 December 2007, as well as the number of meetings held in 2007 and the attendance record.

## COMPOSITION OF THE BOARD OF DIRECTORS ON 31DECEMBER 2007

| Name | Primary responsibility | Period served on the Board in 2007 | End, current term of office | Board meetings attended | Non-executive directors | Core shareholders' representatives | Independent directors | Members of the Executive Committee | Audit Committee | Nomination Committee | Remuneration Committee | Agenda Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of meetings in 2007: | | | | 10 | | | | | 4 | 2 | 4 | 9 |
| Jan Huyghebaert | Chairman of the Board of Directors | Full year | 2008 | 10 | ■ | | | | | 2* | 4 | 9* |
| Philippe Vlerick | Deputy Chairman of the Board of Directors Chairman and Managing Director, UCO NV | Full year | 2009 | 10 | ■ | ■ | | | | 2 | | |
| André Bergen | President of the Executive Committee and Executive Director | Full year | 2011 | 10 | | | | ■* | | 2 | | 9 |
| Etienne Verwilghen | Executive Director | Full year | 2009 | 9 | | | | ■ | | | | |
| Paul Borghgraef | Director of various companies | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Paul Bostoen | Managing Director, Christeyns NV and Algimo NV | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Jo Cornu | CEO, Agfa Gevaert NV | Full year | 2008 | 9 | ■ | | ■ | | | 2 | 4* | |
| Luc Debaillie | Chairman and Managing Director, Voeders Debaillie NV | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Chris Defrancq | Executive Director | Full year | 2011 | 9 | | | | ■ | | | | |
| Franky Depickere | Managing Director, Cera Beheersmaatschappij NV and KBC Ancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA | Full year | 2011 | 10 | ■ | ■ | | | | 2 | | |
| Noël Devisch | Chairman, MRBB CVBA | Full year | 2009 | 9 | ■ | ■ | | | | 2 | | |
| Frank Donck | Managing Director, 3D NV | Full year | 2011 | 10 | ■ | ■ | | | | | | |
| Jean-Marie Géradin | Lawyer and Director, Cera Beheersmaatschappij NV and KBC Ancora Beheersmaatschappij NV | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Dirk Heremans | Professor at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL) | Full year | 2009 | 10 | ■ | | ■ | | 4 | | | |
| Herwig Langohr | Professor of Finance and Banking, INSEAD | Full year | 2011 | 7 | ■ | | ■ | | 3 | | | |
| Christian Leysen | CEO of Ahlers NV and AXE Investments NV | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Xavier Liénart | Director of various companies and Director of Cera Beheersmaatschappij NV | Full year | 2010 | 10 | ■ | ■ | | | | | | |
| Philippe Naert | Dean, TiasNimbas Business School | Full year | 2009 | 10 | ■ | | ■ | | 4 | | 4 | |
| Luc Philips | Director | Full year | 2009 | 10 | ■ | | | | 4* | 2 | | 9 |
| Theodoros Roussis | CEO, Ravago Plastics NV | Full year | 2008 | 8 | ■ | ■ | | | 3 | | | |
| Hendrik Soete | CEO, Aveve Group, and Director, MRBB CVBA | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Alain Tytgadt | Managing Director, Metalunion CVBA | Full year | 2009 | 9 | ■ | ■ | | | | | | |
| Guido Van Roey | Member of management, InBev NV and Director, Cera Beheersmaatschappij NV | Full year | 2009 | 9 | ■ | ■ | | | | | | |
| Germain Vantieghem | Managing Director, Cera Beheersmaatschappij NV and KBC Ancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA | Full year | 2010 | 10 | ■ | ■ | | | 4 | | | |
| Jozef Van Waeyenberge | Director, De Eik NV | Full year | 2009 | 10 | ■ | ■ | | | | | | |
| Marc Wittemans | Secretary-General, MRBB CVBA | Full year | 2010 | 10 | ■ | ■ | | | 4 | | | |

* Chairman of the committee.

Auditor: Ernst & Young, Bedrijfsrevisoren BCV, represented by Danielle Vermaelen and/or Jean-Pierre Romont.

Secretary to the Board of Directors: Tom Debacker.

## Changes in the composition of the Board of Directors in 2007

In 2007, no changes were made to the composition of the Board of Directors.

It will be proposed to the General Meeting of 24 April 2008 that the directors whose terms of office end in 2008 (Jan Huyghebaert, Jo Cornu and Theodoros Roussis) be re-appointed for a further period of four years.

At the General Meeting of 24 April 2008, Guido Van Roey and Xavier Liénart will step down as directors. It will be proposed to the General Meeting that Ghislaine Van Kerckhove and Lode Morlion be appointed to replace them. Born in 1963, Ghislaine Van Kerckhove has a Master's Degree in Law (Ghent University) and has been practising law at the Bar in Dendermonde since 1989. She is also a substitute justice of the peace in the canton Wetteren-Zele. Ghislaine Van Kerckhove is Deputy Chairman of the Board of Directors of Cera Beheersmaatschappij NV and of Cera Ancora VZW. Lode Morlion, born in 1960, graduated as a physiotherapist from the Hoger Instituut voor Paramedische Beroepen (Higher Institute for the Paramedical Professions) in Gent in 1981 and is a self-employed member of a group practice. He is also a managing director of several family companies and mayor of Lo-Reninge, where he lives. He has been Chairman of Cera Beheersmaatschappij NV since 2007. Since 2005, Lode Morlion has been a member of the Board of Directors of KBC Bank, but will step down from this post at the General Meeting of KBC Bank on 23 April 2008.

A list of the external offices held by members of the Board of Directors is provided, as stipulated by the Belgian supervisory authority, at www.kbc.com.

# COMPOSITION OF THE EXECUTIVE COMMITTEE

## Composition of the Executive Committee on 31 December 2007

The table shows the members of the Executive Committee on 31 December 2007. For more information on the members of the Executive Committee, see 'Legal structure and management' in the 'Group structure and strategy' section or click 'corporate governance' at www.kbc.com.

| Name | Period on the Executive Committee in 2007 |
|---|---|
| Herman Agneessens | Full year |
| André Bergen (President) | Full year |
| Chris Defrancq | Full year |
| Frans Florquin | Full year |
| Guido Segers | Full year |
| Jan Vanhevel | Full year |
| Etienne Verwilghen | Full year |

## Changes in the composition of the Executive Committee in 2007

In 2007, no changes were made to the composition of the Executive Committee.

At the end of 2007, Frans Florquin expressed his intention to retire from KBC on 1 May 2008, just short of his 61st birthday and after a career spanning 36 years. The Board of Directors of KBC Group NV would like to express its sincere gratitude for his efforts and commitment towards the establishment and successful expansion of the KBC group and its bancassurance concept.

The Board of Directors of KBC Group NV decided to appoint Danny De Raymaeker to succeed Frans Florquin as a member of the Executive Committee of KBC Group NV. The appointment will take effect on 1 May 2008. Born in 1959, Danny De Raymaeker graduated with a degree in commercial and business-economic engineering (*handels- en bedrijfseconomisch ingenieur*) from the Katholieke Universiteit Leuven in 1983 and obtained a Master's Degree in Internal Auditing from the IPO-UFSIA Management School (University of Antwerp) in 1986. He began his professional career as an internal auditor with the Kredietbank in 1984. In 1990, he was appointed head of the control department, charged with the task of supervising market activities, before taking responsibility for planning and budgets in 1991. Between 1994 and the end of 1995, he was Deputy Regional Manager of the Leuven Retail Banking Office. On 1 January 1996, he became General Manager of the Domestic Payments and Electronic Banking Division. In 1997, he was appointed General Manager of the Payments Directorate, before taking charge of Retail & Private Bancassurance Distribution in 2002. Since 2006, he has been a member of the Management Committee of the Belgium Business Unit. He also holds offices in group companies Centea, CBC Banque and KBC Commercial Finance.

## MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Board of Directors

The Board of Directors met ten times in 2007. The meetings were always attended by virtually all members (see table). Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2007:

- acquisitions;
- approving the budget for 2008 and the 2009-2010 annual plans;
- the market risk and ALM limits;
- the group's strategy and commercial development;
- establishing the accounting policies;
- geographic expansion;
- corporate social responsibility;
- the situation on the financial markets;
- KBC's position in Slovenia;
- the remuneration package of the members of the Executive Committee;
- the composition of the Executive Committee;
- risk governance;
- KBC's operations in Asia.

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

### Audit Committee

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

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

The periodic reports from WRB primarily covered the changes and methodological developments regarding value and capital management, as well as the ALM, market, credit, operational and insurance risks of the group.

The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The Audit Committee also reviewed the implementation of the 2007 audit plan, and approved the 2008 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations and – as is customary each year – was provided with the report containing the opinion on the quality of the internal control of the KBC group.

At the end of February, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2006, and approved the press release. The Board of Auditors explained their key audit findings. On 15 May, 9 August and 8 November, the auditors explained their key findings following their limited review of the accounts as at 31 March, 30 June and 30 September, respectively. The Audit Committee also approved the respective press releases.

During the course of the year, the Audit Committee also reviewed several special reports concerning business continuity, the activities of Group Compliance, the economic capital programme, the liquidity risk management framework, the annual report on special investigations, the overview of outstanding fiscal and legal disputes, and the CRO's annual report. Senior managers were regularly invited to provide explanations on specific subjects within their remit that were under discussion.

### Nomination Committee

In 2007, the Nomination Committee met twice, each time to discuss the matter of succession within the Executive Committee and the re-appointment of members of the Board of Directors.

### Remuneration Committee

The Remuneration Committee met four times in 2007. The remuneration package of the members of the Executive Committee was discussed at length, partly on the basis of an external comparative study. The resulting proposal to amend their financial remuneration package and supplementary pension system was approved by the Board of Directors. Attention was also devoted to the remuneration package of the Chairman of the Board of Directors and a proposal was submitted to the Board concerning the fixed remuneration for directors in 2007.

### Agenda Committee

In 2007, the Agenda Committee met nine times, on each occasion prior to a meeting of the Board of Directors in order to set the relevant agenda. It also decided how the various topics would be presented to the Board of Directors, and what documentation would be made available to the Board. Furthermore, it ensured that the questions raised by the Board were adequately answered at the following meeting. It prepared a list of topics to be covered in the upcoming periods for the continuous education of members of the Board of Directors on financial and technical subjects.

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

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its associated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. These regulations have been incorporated into the Charter of KBC Group NV.

No such conflicts of interest arose at KBC Group NV during the course of 2007.

## MEASURES REGARDING INSIDER DEALING AND MARKET MANIPULATION

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

## REMUNERATION

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

The remuneration awarded by KBC Group NV to its non-executive directors during 2007 for financial year 2006 can be split into fixed remuneration that is deducted from net profit for that year and attendance fees charged as expenses to that year.

The directors sitting on the Audit Committee of KBC Group NV received additional remuneration for the work they performed in that regard. No additional remuneration was paid to directors sitting on either the Nomination Committee or the Remuneration Committee.

In addition, other group companies in Belgium or abroad paid remuneration to certain non-executive directors for offices they had held at those companies in the course of 2006.

Consequently, there are differences in the individual remuneration paid to directors and there would be no value added by listing these divergent amounts in a separate table. Moreover, given the specific composition of the Board of Directors, providing this information in such a table is not considered appropriate for privacy reasons. Hence, as was the case last year, it has been replaced by disclosure of the total consolidated remuneration paid in 2007 by KBC Group NV and its direct and indirect subsidiaries to the eligible non-executive directors: a total of 2 528 799 euros. As Jan Huyghebaert and Luc Philips receive a separate remuneration package, their remuneration has not been included in these figures. In 2007, Mr Huyghebaert in his capacity as Chairman of the Board of Directors of KBC Group NV received 571 006 euros for the year, while the total remuneration package of Mr Philips is equivalent to that of an executive director of KBC Bank NV.

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

The Executive Committee of KBC Group NV is a collective body, whose president is the first among equals and not a Chief Executive Officer (CEO) who is the sole executive and accountable representative of the company. Consequently, KBC Group NV does not consider it appropriate to release details of the remuneration paid to an individual member of that collective body, not even the CEO. In addition, a general description of the remuneration paid to the president of the Executive Committee already appears in the Charter of KBC Group NV. Based upon the advice of the Remuneration Committee, the Board of Directors decided on 20 December 2007 to raise this remuneration from 2008; it will not be over 35% more than the amount paid to the individual members of the Executive Committee.

Hence, the disclosure of the individual remuneration paid to the CEO has been replaced by the disclosure of the total remuneration paid in 2007 by KBC Group NV and its direct and indirect subsidiaries to the seven persons who were members of the Executive Committee in 2007.

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

*Basic salary:* In 2007, the members of the Executive Committee received a combined, fixed salary of 3 398 384 euros.

*Variable emolument:* In 2007, the members of the Executive Committee received a combined variable emolument amounting to 3 795 606 euros. It was comprised of the balance of the remuneration based on the results for the 2006 financial year and an advance payment of 1 440 000 euros for the variable emolument for the 2007 financial year.

*Other components of remuneration:* When funding the supplementary pension for the members of the Executive Committee, account is taken of the pension benefits to which they may already have been entitled as an employee of a KBC group company, as well as of their age at the time of their appointment to the Executive Committee. As a result, the group insurance premiums paid are different. In 2007, premiums totalling 4 485 137 euros were paid. The retirement pension accumulated in this way amounts to about 30% of total earnings. An additional defined-contribution pension plan was also launched in 2007, with the size of the annual contribution depending on the change in the group's earnings per share. In 2007, an amount totalling 592 547 euros was transferred to the pension fund.

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

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

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

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

In 2007, a total of 7 300 options, with an exercise price of 97.94 euros, were allocated to the current president and to the previous president of the Executive Committee (on a *pro rata temporis* basis for the period that the previous president had held the post in 2006). These options can be exercised from September 2011 to August 2014. Since these options originate from the decision taken by the Board of Directors of the KBC Bank and Insurance Holding Company NV in 2002 allowing share options for existing KBC shares to be allocated until 2012, no authorisation is required from the General Meeting of Shareholders.

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

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

## COMMENTS

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

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

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

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

In 2007, there were no conflicts of interest falling within the scope of Article 523 or 524 of the Belgian Companies Code.

## DISCLOSURE UNDER ARTICLE 34 OF THE BELGIAN ROYAL DECREE OF 14 NOVEMBER 2007 CONCERNING THE OBLIGATIONS OF ISSUERS OF FINANCIAL INSTRUMENTS ADMITTED TO TRADING ON A REGULATED MARKET

### Capital structure

At year-end 2007, the fully paid-up share capital of KBC was represented by 355 115 321 shares of no nominal value. At the same time, 2 589 347 subordinated mandatorily convertible bonds (MCBs) were also in circulation, entitling holders until 30 November 2008 to convert them into KBC Group NV shares at a ratio of one KBC share for one MCB. MCBs that have not been contributed by their holders will be converted automatically into new KBC Group NV shares at maturity.

## Powers of the management body with regard to the issue and repurchase of shares

The General Meeting of Shareholders has authorised the Board of Directors until 17 June 2012 to increase, in one or more steps, the share capital by an amount of 200 million euros, in cash or in kind, by issuing shares and convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise). Under this authorisation, the Board of Directors can suspend or restrict pre-emptive rights, subject to the limits laid down by law and the Articles of Association.
The Board of Directors can exercise this authorisation, pursuant to the conditions and within the limits laid down in the Companies Code, even after the date of receipt of notification from the CBFA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 25 April 2010.
On 31 December 2007, the amount by which capital may be increased came to 199 614 169 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2007, a maximum of 57 360 393 new shares can still be issued, i.e. 16.15% of the number of shares in circulation at that time.

The General Meeting has authorised the Board of Directors of KBC Group NV and the Boards of Directors of its direct subsidiaries to acquire and take in pledge KBC Group NV treasury shares, as long as the par value of these shares does not exceed 10% of KBC Group NV's issued capital. The shares may be acquired at a price per share that may not be lower than one euro or higher than the last closing price on Euronext Brussels before the date of acquisition, plus 10%. This authorisation is valid until 25 October 2008. The aforementioned Boards of Directors are also authorised to sell KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 5%.

On 31 December 2007, KBC Group NV and its direct subsidiaries held a total of 15 395 852 KBC Group NV shares (i.e. 4.33% of the number of shares in circulation at that time) primarily for the purpose of the buyback programme approved by the General Meeting and for hedging KBC's employee stock option plans.

The Board of Directors of KBC Group NV and the Boards of Directors of the direct subsidiaries have also been authorised until 17 June 2010 to purchase or sell KBC Group NV shares, whenever their purchase or sale is necessary to prevent KBC Group NV from suffering serious imminent disadvantage.

## Legal restriction on transferring securities

Each year, KBC Group NV carries out a capital increase reserved for KBC employees, who are free to subscribe to it. These new shares are blocked on behalf of the employees concerned by KBC for two years, starting from the payment date. At year-end 2007, a total of 542 195 shares were blocked in this way, 292 627 of which will be released before the end of 2008.

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under share option plans set up at different points in time by the KBC Bank and Insurance Holding Company NV (now KBC Group NV) may not be transferred *inter vivos*. On 31 December 2007, the number of options not yet exercised came to 1 121 963.

## Legal restriction on exercising voting rights

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended. At 31 December 2007, these rights were suspended for 15 441 530 shares, i.e. 4.35% of the number of shares in circulation at that time.

## Shareholder agreement recognised by KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

A group of legal entities and individuals act jointly and constitute the core shareholders of KBC Group NV. To this end, they have contributed the following shareholdings (percentages calculated at year-end 2007):

- KBC Ancora Comm. VA: 32 634 899 shares (9.19%);
- Cera CVBA: 10 080 938 shares (2.84%);
- MRBB CVBA: 26 436 213 shares (7.44%);
- Other core shareholders: 42 715 838 shares (12.03%);

This is a total of 111 867 888 shares (31.50%).

A shareholder agreement was concluded between these parties in order to support and co-ordinate the general policy of KBC Group NV and to supervise its implementation. The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate.

## DISCLOSURE UNDER ARTICLE 74 §1 AND 7 OF THE BELGIAN ACT OF 1 APRIL 2007 ON PUBLIC TAKEOVER BIDS

Within the framework of the above-mentioned legislation, KBC Group NV received notification from:

- Individuals and legal entities who jointly held more than 30% of KBC Group NV securities carrying voting rights on 1 September 2007;
- Individuals and legal entities that may have had control over the legal entities referred to above.

These disclosures were made with a view to gaining exemption from the obligation to make a bid for all KBC Group NV securities carrying voting rights and are summarised in the table in descending order of size.

## DISCLOSURES UNDER ARTICLE 74 §1 AND 7 OF THE BELGIAN ACT ON PUBLIC TAKEOVER BIDS

A: Disclosures by
- a legal entities;
- b individuals holding 3% or more of securities carrying voting rights[1];
- c legal entities with control over the legal entities referred to under a.;
- d individuals who, via control over the legal entities referred to under a., indirectly hold 3% or more of securities carrying voting rights[1].

| Shareholder | Shareholding (quantity) | % | Controlling individual/entity | Shareholder | Shareholding (quantity) | % | Controlling individual/entity |
|---|---|---|---|---|---|---|---|
| KBC Ancora Comm. VA | 82 216 380 | 23.16 | Cera CVBA | La Pélégrina | 220 588 | 0.06 | ING Trust |
| MRBB | 42 562 675 | 11.99 | HBB vzw | Robor NV | 216 162 | 0.06 | Individual(s) |
| Cera CVBA | 25 286 621 | 7.12 | – | Hermes Invest NV | 180 225 | 0.05 | – |
| SAK AGEV | 15 131 305 | 4.26 | – | I.B.P. Ravago Pensioen-fonds | 165 633 | 0.05 | – |
| Plastiche NV | 2 989 482 | 0.84 | Individual(s) | Tradisud NV | 157 774 | 0.04 | – |
| SAK Pula | 2 229 250 | 0.63 | – | SAK Hermes Controle en Beheersmaatschappij | 148 527 | 0.04 | – |
| 3D NV | 1 995 161 | 0.56 | SAK Iberanfra | Lineago Trust | 148 400 | 0.04 | – |
| De Eik NV | 1 849 500 | 0.52 | Individual(s) | Promark International NV | 127 000 | 0.04 | Individual(s) |
| Vrij en Vrank CVBA | 1 740 258 | 0.49 | SAK Prof. Vlerick | SAK Iberanfra | 120 107 | 0.03 | – |
| Setas SA | 1 626 401 | 0.46 | SAK Setas | Spero NV | 105 500 | 0.03 | Individual(s) |
| Ackermans & van Haaren NV | 1 417 527 | 0.40 | Scaldis Invest NV | Cobeton NV | 99 304 | 0.03 | SAK Hermes Controle en Beheers-maatschappij |
| Stichting Amici Almae Matris | 904 524 | 0.25 | – | Meralpa NV | 98 577 | 0.03 | – |
| Rainyve SA | 900 000 | 0.25 | – | Inkao-Invest BVBA | 91 179 | 0.03 | Robor NV |
| Beluval NV | 850 500 | 0.24 | – | Frou Frou NV | 79 924 | 0.02 | – |
| Van Holsbeeck NV | 640 885 | 0.18 | Individual(s) | Edilu NV | 70 000 | 0.02 | – |
| Partapar SA | 559 291 | 0.16 | Individual(s) | Kreusch en Co NV | 67 823 | 0.02 | – |
| Ceco cva | 555 734 | 0.16 | Individual(s) | Wilig NV | 42 472 | 0.01 | – |
| Sopaver SA | 450 000 | 0.13 | – | Mercurius Invest NV | 40 230 | 0.01 | – |
| C.G.S. NV | 437 865 | 0.12 | – | Bevek Vlam 21 | 39 006 | 0.01 | ABN Amro |
| Cecan Invest NV | 394 737 | 0.11 | SAK Prof. Vlerick | Filax Stichting | 38 529 | 0.01 | Individual(s) |
| Mercator NV | 366 427 | 0.10 | Bâloise-holding | Lycol NV | 31 939 | 0.01 | – |
| VIM CVBA | 361 562 | 0.10 | Individual(s) | Paton BVBA | 30 000 | 0.01 | Individual(s) |
| Sereno SA | 330 000 | 0.09 | Individual(s) | Van Vuchelen en Co CVA | 27 785 | 0.01 | – |

## DISCLOSURES UNDER ARTICLE 74 §1 AND 7 OF THE BELGIAN ACT ON PUBLIC TAKEOVER BIDS (continued)

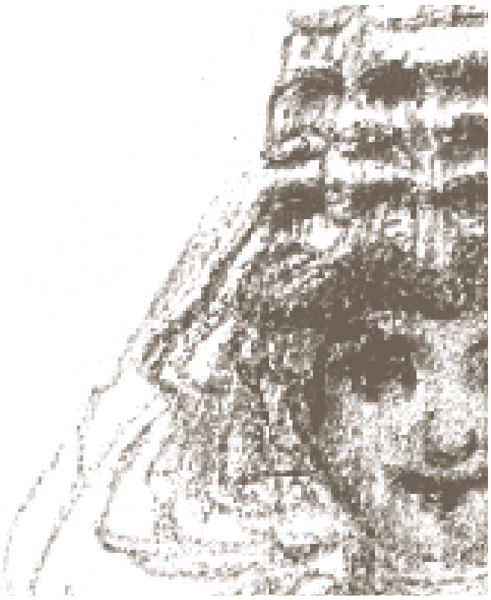
| Shareholder | Shareholding (quantity) | % | Controlling individual/entity | Shareholder | Shareholding (quantity) | % | Controlling individual/entity |
|---|---|---|---|---|---|---|---|
| Colver NV | 322 099 | 0.09 | – | Asphalia NV | 13 631 | 0.00 | Individual(s) |
| Algimo NV | 310 316 | 0.09 | Individual(s) | Kristo Van Holsbeeck BVBA | 7 500 | 0.00 | Individual(s) |
| Rodep Comm. VA | 302 500 | 0.09 | Individual(s) | Schacol, in liquidation | 5 437 | 0.00 | – |
| SAK Berkenstede | 243 000 | 0.07 | – | Immidi NV | 3 480 | 0.00 | – |
| Efiga Invest SPRL | 233 806 | 0.07 | Moulins de Kleinbettingen SA | | | | |

B: Disclosures by individuals holding less than 3% of securities carrying voting rights
(the identity of the individuals concerned does not have to be disclosed)[2]

| Shareholding (quantity) | % | Shareholding (quantity) | % | Shareholding (quantity) | % | Shareholding (quantity) | % |
|---|---|---|---|---|---|---|---|
| 290 709 | 0.08 | 25 500 | 0.01 | 8 556 | 0.00 | 3 375 | 0.00 |
| 274 023 | 0.08 | 24 725 | 0.01 | 8 484 | 0.00 | 3 375 | 0.00 |
| 274 022 | 0.08 | 23 581 | 0.01 | 8 316 | 0.00 | 3 375 | 0.00 |
| 141 466 | 0.04 | 23 577 | 0.01 | 8 212 | 0.00 | 3 240 | 0.00 |
| 107 500 | 0.03 | 23 577 | 0.01 | 8 212 | 0.00 | 3 034 | 0.00 |
| 94 890 | 0.03 | 23 577 | 0.01 | 6 993 | 0.00 | 2 628 | 0.00 |
| 76 000 | 0.02 | 23 577 | 0.01 | 6 874 | 0.00 | 2 613 | 0.00 |
| 64 078 | 0.02 | 23 577 | 0.01 | 6 733 | 0.00 | 2 295 | 0.00 |
| 63 599 | 0.02 | 22 611 | 0.01 | 6 330 | 0.00 | 2 025 | 0.00 |
| 60 493 | 0.02 | 21 897 | 0.01 | 4 590 | 0.00 | 1 350 | 0.00 |
| 57 841 | 0.02 | 19 546 | 0.01 | 4 558 | 0.00 | 1 269 | 0.00 |
| 55 406 | 0.02 | 16 733 | 0.00 | 4 549 | 0.00 | 877 | 0.00 |
| 54 986 | 0.02 | 16 000 | 0.00 | 4 100 | 0.00 | 774 | 0.00 |
| 49 999 | 0.01 | 13 905 | 0.00 | 4 000 | 0.00 | 621 | 0.00 |
| 43 200 | 0.01 | 13 905 | 0.00 | 4 000 | 0.00 | 513 | 0.00 |
| 39 264 | 0.01 | 12 956 | 0.00 | 4 000 | 0.00 | 324 | 0.00 |
| 33 069 | 0.01 | 12 500 | 0.00 | 4 000 | 0.00 | 270 | 0.00 |
| 32 994 | 0.01 | 11 003 | 0.00 | 4 000 | 0.00 | 243 | 0.00 |
| 32 994 | 0.01 | 11 000 | 0.00 | 3 759 | 0.00 | 189 | 0.00 |
| 32 978 | 0.01 | 10 953 | 0.00 | 3 375 | 0.00 | 154 | 0.00 |
| 32 978 | 0.01 | 8 850 | 0.00 | 3 375 | 0.00 | | |

1 No such disclosures were received.

2 Some of these shareholdings have been reported as being in bare ownership without voting rights and some as being held in usufruct with voting rights.



# Consolidated annual accounts

La Gamme d'Amour, James Ensor

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

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

**Unqualified opinion on the consolidated financial statements**

We have audited the consolidated financial statements of KBC Group NV and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 december 2007, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 december 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 355.597 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 3.281 million.

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

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

*Responsibility of the statutory auditor*

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

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

*Opinion*

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

**Additional comments**

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

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

- The directors' report on the consolidated financial statements deals with the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the entities included in the consolidation are facing, and on their financial situation, their foreseeable evolution or the significant influence of certain facts on their future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 20 March 2008

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

| | |
|---|---|
| Jean-Pierre Romont | Danielle Vermaelen |
| Partner | Partner |

*Ref: 08JPR0069'*

## CONSOLIDATED INCOME STATEMENT

| In millions of EUR | Note | 2006 | 2007 |
|---|---|---|---|
| Net interest income | 3 | 4 158 | 4 089 |
| Gross earned premiums, insurance | 9 | 3 321 | 3 989 |
| Non-life | 11 | 1 748 | 1 826 |
| Life | 10 | 1 572 | 2 163 |
| Dividend income | 4 | 211 | 256 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 5 | 1 370 | 1 642 |
| Net realised gains from available-for-sale assets | 6 | 513 | 682 |
| Net fee and commission income | 7 | 1 865 | 1 993 |
| Other net income | 8 | 1 119 | 619 |
| **TOTAL INCOME** | | **12 556** | **13 271** |
| Operating expenses | 12 | -4 925 | -5 219 |
| Staff expenses | 12 | -2 970 | -3 148 |
| General administrative expenses | 12 | -1 631 | -1 740 |
| Depreciation and amortisation of fixed assets | 12 | -359 | -361 |
| Provisions for risks and charges | 12 | 36 | 31 |
| Impairment | 14 | -175 | -267 |
| on loans and receivables | 14 | -177 | -185 |
| on available-for-sale assets | 14 | -6 | -75 |
| on goodwill | 14 | -1 | 0 |
| other | 14 | 9 | -7 |
| Gross technical charges, insurance | 9 | -2 843 | -3 404 |
| Non-life | 9 | -1 045 | -1 085 |
| Life | 9 | -1 798 | -2 319 |
| Ceded reinsurance result | 9 | -63 | -64 |
| Share in results of associated companies | 15 | 45 | 56 |
| **PROFIT BEFORE TAX** | | **4 595** | **4 373** |
| Income tax expense | 16 | -1 002 | -970 |
| Net post-tax income from discontinued operations | | 0 | 0 |
| **PROFIT AFTER TAX** | | **3 593** | **3 403** |
| attributable to minority interests | | 163 | 123 |
| **attributable to equity holders of the parent** | | **3 430** | **3 281** |
| Earnings per share (in EUR) | | | |
| Basic | 17 | 9.68 | 9.46 |
| Diluted | 17 | 9.59 | 9.42 |

- Dividend: the Board of Directors will propose to the general meeting of shareholders that a gross dividend of 3.78 euros be paid out per share entitled to dividend. The total dividend to be paid amounts to 1 295 million euros.
- Earnings per share are shown at the bottom of the table. Without the impact of the share buyback programmes, ordinary earnings per share would have come to 9.38 euros (9.55 euros in 2006).
- For changes in the presentation of the income statement, see Note 1 a.

# CONSOLIDATED BALANCE SHEET

## ASSETS

| In millions of EUR | Note | 31-12-2006 | 31-12-2007 |
|---|---|---|---|
| Cash and cash balances with central banks | | 3 826 | 4 605 |
| Financial assets | 18–25 | 310 427 | 337 215 |
| Held for trading | 18–25 | 67 630 | 73 559 |
| Designated at fair value through profit or loss | 18–25 | 57 182 | 45 878 |
| Available for sale | 18–25 | 47 868 | 46 075 |
| Loans and receivables | 18–25 | 125 195 | 159 119 |
| Held to maturity | 18–25 | 12 213 | 12 041 |
| Hedging derivatives | 18–25 | 339 | 544 |
| Reinsurers' share in technical provisions, insurance | 31 | 290 | 291 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | -175 | -223 |
| Accrued interest income | – | 2 773 | 3 315 |
| Tax assets | 27 | 761 | 919 |
| Current tax assets | 27 | 154 | 138 |
| Deferred tax assets | 27 | 608 | 781 |
| Non-current assets held for sale and disposal groups | – | 92 | 41 |
| Investments in associated companies | 28 | 522 | 634 |
| Investment property | 29 | 413 | 593 |
| Property and equipment | 29 | 1 906 | 2 234 |
| Goodwill and other intangible assets | 30 | 1 988 | 3 501 |
| Other assets | 26 | 2 578 | 2 473 |
| TOTAL ASSETS | | 325 400 | 355 597 |

## LIABILITIES AND EQUITY

| In millions of EUR | Note | 31-12-2006 | 31-12-2007 |
|---|---|---|---|
| Financial liabilities | 18, 19, 21, 25 | 282 282 | 309 335 |
| Held for trading | 18, 19, 21, 25 | 37 423 | 40 992 |
| Designated at fair value through profit or loss | 18, 19, 21, 25 | 56 720 | 45 362 |
| Measured at amortised cost | 18, 19, 21, 25 | 188 044 | 222 826 |
| Hedging derivatives | 18, 19, 21, 25 | 96 | 155 |
| Gross technical provisions, insurance | 31 | 15 965 | 17 905 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | 0 | 0 |
| Accrued interest expense | – | 1 694 | 2 087 |
| Tax liabilities | 27 | 846 | 816 |
| Current tax liabilities | 27 | 534 | 481 |
| Deferred tax liabilities | 27 | 312 | 335 |
| Liabilities associated with disposal groups | – | 43 | 0 |
| Provisions for risks and charges | 32 | 493 | 456 |
| Other liabilities | 33, 34 | 5 624 | 6 511 |
| TOTAL LIABILITIES | | 306 947 | 337 110 |
| Total equity | – | 18 453 | 18 487 |
| Parent shareholders' equity | 35 | 17 219 | 17 348 |
| Minority interests | – | 1 234 | 1 139 |
| TOTAL LIABILITIES AND EQUITY | | 325 400 | 355 597 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

| In millions of EUR | Issued and paid up share capital | Share premium | Subordinated mandatorily convertible bonds | Treasury shares | Revaluation reserve (AFS assets) | Hedging reserve (cashflow hedges) | Reserves | Translation differences | Parent shareholders' equity | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | | | | |
| **Balance at the beginning of the period** | **1 235** | **4 150** | **183** | **-1 111** | **1 968** | **46** | **10 651** | **98** | **17 219** | **1 234** | **18 453** |
| Fair value adjustments before tax | 0 | 0 | 0 | 0 | -522 | 82 | 0 | 0 | -440 | – | -440 |
| Deferred tax on fair value changes | 0 | 0 | 0 | 0 | 182 | -42 | 0 | 0 | 139 | – | 139 |
| Transfer from revaluation reserve to net profit | | | | | | | | | | | |
| Impairment losses | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 6 | – | 6 |
| Net gains/losses on disposal | 0 | 0 | 0 | 0 | -904 | 0 | 0 | 0 | -904 | – | -904 |
| Deferred income taxes | 0 | 0 | 0 | 0 | 79 | 0 | 0 | 0 | 79 | – | 79 |
| Transfer from hedging reserve to net profit* | | | | | | | | | | | |
| Gross amount | 0 | 0 | 0 | 0 | 0 | -16 | 0 | 0 | -16 | – | -16 |
| Deferred income taxes | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 4 | – | 4 |
| Effect of changes in accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 |
| Currency translation differences | 0 | 0 | 0 | 0 | 2 | 0 | 0 | -51 | -49 | – | -49 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | -4 | 0 | -4 | – | -4 |
| **Subtotal, recognised directly in equity** | **0** | **0** | **0** | **0** | **-1 158** | **28** | **-4** | **-51** | **-1 186** | **–** | **-1 186** |
| Net profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 3 281 | 0 | 3 281 | 123 | 3 403 |
| **Total income and expense for the period** | **0** | **0** | **0** | **0** | **-1 158** | **28** | **3 276** | **-51** | **2 094** | **123** | **2 217** |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | -1 158 | 0 | -1 158 | – | -1 158 |
| Capital increase | 0 | 11 | -1 | 0 | 0 | 0 | 0 | 0 | 10 | – | 10 |
| Purchases of treasury shares | 0 | 0 | 0 | -1 000 | 0 | 0 | 0 | 0 | -1 000 | – | -1 000 |
| Sales of treasury shares | 0 | 0 | 0 | 128 | 0 | 0 | 0 | 0 | 128 | – | 128 |
| Results on (derivatives on) treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 54 | 0 | 54 | – | 54 |
| Cancellation of treasury shares | 0 | 0 | 0 | 698 | 0 | 0 | -698 | 0 | 0 | – | 0 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -217 | -217 |
| **Total change** | **0** | **11** | **-1** | **-174** | **-1 158** | **28** | **1 474** | **-51** | **129** | **-95** | **34** |
| **Balance at the end of the period** | **1 235** | **4 161** | **181** | **-1 285** | **810** | **73** | **12 125** | **47** | **17 348** | **1 139** | **18 487** |
| of which revaluation reserve for shares | – | – | – | – | 1 200 | – | – | – | – | – | – |
| of which revaluation reserve for bonds | – | – | – | – | -389 | – | – | – | – | – | – |
| of which revaluation reserve for other assets than bonds and shares | – | – | – | – | -1 | – | – | – | – | – | – |
| of which relating to non-current assets held for sale and disposal groups | – | – | – | 0 | 0 | 0 | – | 0 | 0 | 0 | 0 |

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

- For information on the total number of shares (both ordinary shares and other equity instruments), see Note 35.

## CONSOLIDATED CASHFLOW STATEMENT

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Operating activities** | | |
| Profit before tax | 4 595 | 4 373 |
| Adjustments for: | | |
| Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities | 356 | 444 |
| Profit/Loss on the disposal of investments | -704 | -132 |
| Change in impairment on loans and advances | 177 | 185 |
| Change in gross technical provisions, insurance | 1 427 | 1 728 |
| Change in the reinsurers' share in the technical provisions | -51 | -33 |
| Change in other provisions | -36 | -31 |
| Unrealised foreign currency gains and losses and valuation differences | 326 | -1 304 |
| Income from associated companies | -45 | -56 |
| Cashflows from operating profit before tax and before changes in operating assets and liabilities | 6 046 | 5 173 |
| Changes in operating assets[1] (excluding cash and cash equivalents) | 7 815 | -21 073 |
| Changes in operating liabilities[2] (excluding cash and cash equivalents) | -10 165 | 8 923 |
| Income taxes paid | -944 | -877 |
| **Net cash from or used in operating activities** | **2 752** | **-7 854** |
| **Investing activities** | | |
| Purchase of held-to-maturity securities | -2 074 | -1 196 |
| Proceeds from the repayment of held-to-maturity securities at maturity | 791 | 1 442 |
| Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held) | -809 | -1 162 |
| Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held) | 718 | 81 |
| Purchase of shares in associated companies | 0 | -69 |
| Proceeds from the disposal of shares in associated companies | 618 | 0 |
| Dividends received from associated companies | 13 | 15 |
| Purchase of investment property | -56 | -34 |
| Proceeds from the sale of investment property | 67 | 3 |
| Purchase of intangible fixed assets (excluding goodwill) | -161 | -172 |
| Proceeds from the sale of intangible fixed assets (excluding goodwill) | 95 | 10 |
| Purchase of property and equipment | -475 | -435 |
| Proceeds from the sale of property and equipment | 452 | 134 |
| **Net cash from or used in investing activities** | **-821** | **-1 383** |
| **Financing activities** | | |
| Purchase or sale of treasury shares | -927 | -872 |
| Issue or repayment of promissory notes and other debt securities | 6 761 | 6 916 |
| Proceeds from or repayment of subordinated liabilities | -62 | 1 317 |
| Principal payments under finance lease obligations | 0 | 0 |
| Proceeds from the issuance of share capital | 13 | 10 |
| Proceeds from the issuance of preference shares | 0 | 0 |
| Dividends paid | -938 | -1 172 |
| **Net cash from or used in financing activities** | **4 846** | **6 200** |
| **Change in cash and cash equivalents** | | |
| Net increase or decrease in cash and cash equivalents | 6 777 | -3 037 |
| Cash and cash equivalents at the beginning of the period | 17 003 | 23 635 |
| Effects of exchange rate changes on opening cash and cash equivalents | -145 | 140 |
| Cash and cash equivalents at the end of the period | 23 635 | 20 738 |
| **Additional information[3]** | | |
| Interest paid | -8 521 | -11 307 |
| Interest received | 12 679 | 15 396 |
| Dividends received (including equity method) | 223 | 271 |
| **Components of cash and cash equivalents[4]** | | |
| Cash and cash balances with central banks | 2 787 | 4 605 |
| Loans and advances to banks repayable on demand and term loans to banks at not more than three months | 28 678 | 30 696 |
| Deposits from banks repayable on demand | -7 830 | -14 564 |
| Total | 23 635 | 20 738 |
| Of which not available | 0 | 0 |

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

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

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and divestments of consolidated subsidiaries are commented on below.
- For a more detailed list (including all major changes in ownership percentages), see Note 41.
- All (material) acquisitions and divestments of group companies in 2006 and 2007 were paid for in cash.

## THE MAIN ACQUISITIONS, DIVESTMENTS OR CHANGES IN THE OWNERSHIP PERCENTAGE OF CONSOLIDATED SUBSIDIARIES IN 2006 AND 2007

| | 2006 | | | | | | 2007 |
|---|---|---|---|---|---|---|---|
| In millions of EUR | Banco Urquijo, (Spain) | Absolut Bank (Russia) | A Banka (Serbia) | DZI Insurance (Bulgaria) | Economic and Investment Bank (Bulgaria) | International Factors (Belgium) | Banca KBL Fumagalli Soldan (Italy) |
| Purchase or sale | Sale | Purchase | Purchase | Purchase | Purchase | Purchase | Sale |
| Percentage of shares bought (+) or sold (-) in 2007 | -97.06% | +95.00% | +100.00% | +89.37% | +75.58% | +50.00% | -100.00% |
| Total share percentage at 31-12-2007 | 0.00% | 95.00% | 100.00% | 89.37% | 75.58% | 100.00% | 0.00% |
| For IFRS segment | European private banking | Banking | Insurance | Insurance | Banking | Banking | European private banking |
| For business unit | European private banking | CEER | CEER | CEER | CEER | Merchant Banking | European private banking |
| Deal date (month and year) | 07-2006 | 07-2007 | 06-2007 | 08-2007 | 12-2007 | 06-2007 | 04-2007 |
| Purchase price or sale price | 760 | 698 | 97 | 333 | 297 | 36 | 43 |
| Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold | 678 | -636 | -56 | -332 | 123 | -36 | 36 |
| Assets and liabilities bought or sold | | | | | | | |
| Cash and cash balances with central banks | -82 | 74 | 39 | 0 | 130 | 0 | 0 |
| Financial assets | | | | | | | |
| Held for trading | -21 | 226 | 0 | 23 | 34 | 0 | 0 |
| Designated at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Available for sale | -133 | 25 | 0 | 95 | 5 | 0 | -17 |
| Loans and receivables | -3 538 | 2 024 | 45 | 141 | 668 | 355 | -10 |
| Held to maturity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging derivatives | -5 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which cash and cash equivalents | -82 | 74 | 42 | 0 | 424 | 0 | -8 |
| Financial liabilities | | | | | | | |
| Held for trading | 7 | 1 | 0 | 0 | 0 | 0 | 0 |
| Designated at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Measured at amortised cost | -2 861 | 1 623 | 72 | 0 | 835 | 315 | -36 |
| Hedging derivatives | -2 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which cash and cash equivalents | 0 | -12 | -1 | 0 | -3 | 0 | 0 |
| Gross technical provisions, insurance | 0 | 0 | 0 | 85 | 0 | 0 | 0 |

# NOTES ON THE ACCOUNTING POLICIES

## Note 1 a: Statement of compliance

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

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

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

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

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

In 2007, KBC adjusted the presentation of the financial statements to make them correspond more closely with the Belgian prudential reporting presentation for banks and to comply with IFRS 7 requirements. The main changes concern the balance sheet, which will be presented on a portfolio basis from 2007 (i.e. according to the IAS 39 classification system) instead of on a product basis. In order to retain information per product, financial assets and liabilities have been broken down on a portfolio and product basis in Note 18. The changes in the presentation of the income statement are limited and include a further breakdown of the headings, 'Gross earned premiums, insurance' and 'Gross technical charges, insurance' (into 'Life' and 'Non-life') and 'Operating expenses' (into 'Staff expenses', 'General administrative expenses', 'Depreciation and amortisation of fixed assets' and 'Provisions for risks and charges'). Moreover, the 'Net post-tax income from discontinued operations' heading has been moved from the components of 'Total income' to just before 'Profit after tax' and the presentation of minority interests in net profit after tax adjusted. Changes have also been made to a number of notes, with – among other things – breakdowns being given on a portfolio basis instead of a product basis, to correspond with the changes made to the way in which the balance sheet and income statement are presented.

The requisite information relating to the nature and amount of risk exposure (according to IFRS 4 and IFRS 7) and the information relating to capital (according to IAS 1) has been included in the audited parts of the 'Value and risk management' section.

## Note 1 b: Summary of significant accounting policies

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

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

### b Effects of changes in foreign exchange rates

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

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

### c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

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

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

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD X LGD X EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened based on the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

  When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement.
  If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was

recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven.
A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, evidence of impairment is determined on the basis of a set of coherent indicators and the impairment is calculated based on an assessment of the recoverable amount of the acquisition cost of the packages of shares in portfolio. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.
- *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.
- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.
- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.
- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. The relevant conditions are as follows: the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
Fair value hedges for a portfolio of interest rate risk (portfolio hedge of interest rate risk) are applied by KBC to hedge the interest rate risk for a portfolio of loans with interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.
- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.
- *Fair value adjustments ('market value adjustments')*. Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.
- *Day 1 profits*. When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. Day 1 profit is recognised for structuring CDOs. However, a portion is reserved and is released in profit or loss during the life and until the maturity of the CDO.

## d Goodwill and other intangible assets

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

## e Property and equipment (including investment property)

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

## f Technical provisions

### Provisions for unearned premiums and unexpired risk

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

### Life insurance provision

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

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

### Provision for claims outstanding

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

### Provision for bonuses related to participation features and rebates

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

### Liability adequacy test

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

### Ceded reinsurance and retrocession

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

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

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

## h Pension liabilities

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

## i Tax liabilities

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

## j Provisions

Provisions are recognised in the balance sheet:
- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event; and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

## k Equity

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

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

**l Exchange rates used**

| | Exchange rate at 31-12-2007 | | Exchange rate average in 2007 | |
|---|---|---|---|---|
| | 1 EUR = … currency | Change from 31-12-2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) | 1 EUR = … currency | Change relative to average in 2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) |
| CZK | 26.63 | 3.2% | 27.77 | 2.0% |
| GBP | 0.733 | -8.4% | 0.685 | -0.3% |
| HUF | 253.7 | -0.8% | 251.3 | 5.1% |
| PLN | 3.594 | 6.6% | 3.785 | 3.1% |
| SKK | 33.58 | 2.5% | 33.78 | 10.1% |
| USD | 1.472 | -10.5% | 1.373 | -8.4% |

**m Changes made to accounting policies in 2007**

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

# NOTES ON SEGMENT REPORTING

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

Under IFRS, the primary segment reporting format used by KBC is based on the group's legal structure. KBC distinguishes between the following primary segments:
- Banking: KBC Bank and its subsidiaries;
- Insurance: KBC Insurance and its subsidiaries;
- European private banking (KBL EPB): Kredietbank SA Luxembourgeoise and its subsidiaries;
- Holding-company activities: KBC Group NV (on a non-consolidated basis), KBC Exploitatie NV and the remaining companies of the former Gevaert group.

Intersegment transactions are transactions conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g., Net interest income), the balance of the intragroup transactions for these items is limited. Intersegment transfers are measured on the basis actually used to price the transfers.

The figures for the holding-company activities also include the 'cost-sharing structure', which comprises a number of common support services such as marketing, logistics, IT and communication. Costs incurred by this cost-sharing structure are paid by the holding company and afterwards charged to the other segments. Hence, these amounts are shown both under expenses and under income (income from costs that have been passed on) in the 'holding-company activities' segment, and under expenses in the other segments.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium). The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

More detailed geographic segmentation figures for balance sheet items are provided in the various Notes to the balance sheet. The breakdown here is made based on the geographic location of the counterparty.

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| INCOME STATEMENT, 2006 | | | | | | |
| Net interest income | 3 271 | 595 | 327 | -27 | -8 | 4 158 |
| Gross earned premiums, insurance | 0 | 3 321 | 0 | 0 | 0 | 3 321 |
| Non-life | 0 | 1 748 | 0 | 0 | 0 | 1 748 |
| Life | 0 | 1 572 | 0 | 0 | 0 | 1 572 |
| Dividend income | 125 | 70 | 13 | 3 | 0 | 211 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 469 | -2 | -100 | 3 | 0 | 1 370 |
| Net realised gains from available-for-sale assets | 179 | 261 | 18 | 55 | 0 | 513 |
| Net fee and commission income | 1 648 | -259 | 476 | -2 | 2 | 1 865 |
| Other net income | 457 | 94 | 515 | 682 | -628 | 1 119 |
| **TOTAL INCOME** | **7 148** | **4 080** | **1 248** | **715** | **-635** | **12 556** |
| Operating expenses[a] | -3 881 | -530 | -537 | -612 | 635 | -4 925 |
| Staff expenses | -2 422 | -302 | -344 | -186 | 283 | -2 970 |
| General administrative expenses | -1 287 | -188 | -166 | -342 | 352 | -1 631 |
| Depreciation and amortisation of fixed assets | -206 | -40 | -27 | -86 | 0 | -359 |
| Provisions for risks and charges | 34 | 0 | 0 | 2 | 0 | 36 |
| Impairment | -169 | -9 | 3 | 0 | 0 | -175 |
| on loans and receivables | -176 | 1 | -2 | 0 | 0 | -177 |
| on available-for-sale assets | -2 | -10 | 6 | 0 | 0 | -6 |
| on goodwill | 0 | 0 | -1 | 0 | 0 | -1 |
| other | 9 | 0 | 0 | 0 | 0 | 9 |
| Gross technical charges, insurance | 0 | -2 843 | 0 | 0 | 0 | -2 843 |
| Non-life | 0 | -1 045 | 0 | 0 | 0 | -1 045 |
| Life | 0 | -1 798 | 0 | 0 | 0 | -1 798 |
| Ceded reinsurance result | 0 | -63 | 0 | 0 | 0 | -63 |
| Share in results of associated companies | 41 | 0 | 3 | 0 | 0 | 45 |
| **PROFIT BEFORE TAX** | **3 139** | **635** | **718** | **103** | **0** | **4 595** |
| Income tax expense | -757 | -130 | -42 | -74 | 0 | -1 002 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **PROFIT AFTER TAX** | **2 382** | **505** | **676** | **29** | **0** | **3 593** |
| attributable to minority interests | 181 | -30 | 9 | 3 | 0 | 163 |
| **attributable to equity holders of the parent** | **2 201** | **535** | **668** | **27** | **0** | **3 430** |
| a Of which non-cash expenses | -172 | -40 | -27 | -84 | 0 | -323 |
| Depreciation and amortisation of fixed assets | -206 | -40 | -27 | -86 | 0 | -359 |
| Other | 34 | 0 | 0 | 2 | 0 | 36 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| INCOME STATEMENT, 2007 | | | | | | |
| Net interest income | 3 179 | 669 | 244 | 0 | -3 | 4 089 |
| Gross earned premiums, insurance | 0 | 3 989 | 0 | 0 | 0 | 3 989 |
| Non-life | 0 | 1 826 | 0 | 0 | 0 | 1 826 |
| Life | 0 | 2 163 | 0 | 0 | 0 | 2 163 |
| Dividend income | 109 | 136 | 11 | 0 | 0 | 256 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 1 767 | -74 | -56 | 5 | 0 | 1 642 |
| Net realised gains from available-for-sale assets | 136 | 484 | 61 | 0 | 0 | 682 |
| Net fee and commission income | 1 897 | -368 | 461 | -2 | 5 | 1 993 |
| Other net income | 410 | 69 | 31 | 801 | -693 | 619 |
| **TOTAL INCOME** | **7 499** | **4 906** | **753** | **804** | **-690** | **13 271** |
| Operating expenses[a] | -4 136 | -567 | -476 | -733 | 693 | -5 219 |
| Staff expenses | -2 545 | -343 | -312 | -274 | 325 | -3 148 |
| General administrative expenses | -1 396 | -200 | -131 | -380 | 367 | -1 740 |
| Depreciation and amortisation of fixed assets | -222 | -32 | -28 | -80 | 0 | -361 |
| Provisions for risks and charges | 27 | 9 | -5 | 0 | 0 | 31 |
| Impairment | -204 | -25 | -38 | -1 | 0 | -267 |
| on loans and receivables | -148 | -4 | -33 | 0 | 0 | -185 |
| on available-for-sale assets | -50 | -21 | -4 | 0 | 0 | -75 |
| on goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| other | -6 | -1 | 0 | -1 | 0 | -7 |
| Gross technical charges, insurance | 0 | -3 402 | 0 | 0 | -2 | -3 404 |
| Non-life | 0 | -1 085 | 0 | 0 | 0 | -1 085 |
| Life | 0 | -2 317 | 0 | 0 | -2 | -2 319 |
| Ceded reinsurance result | 0 | -64 | 0 | 0 | 0 | -64 |
| Share in results of associated companies | 53 | 0 | 3 | 0 | 0 | 56 |
| **PROFIT BEFORE TAX** | **3 212** | **847** | **243** | **70** | **0** | **4 373** |
| Income tax expense | -731 | -102 | -38 | -99 | 0 | -970 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **PROFIT AFTER TAX** | **2 482** | **746** | **205** | **-29** | **0** | **3 403** |
| attributable to minority interests | 118 | 5 | 0 | 0 | 0 | 123 |
| **attributable to equity holders of the parent** | **2 364** | **741** | **205** | **-29** | **0** | **3 281** |
| a Of which non-cash expenses | -195 | -23 | -33 | -80 | 0 | -331 |
| Depreciation and amortisation of fixed assets | -222 | -32 | -28 | -80 | 0 | -361 |
| Other | 27 | 9 | -5 | 0 | 0 | 31 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| BALANCE SHEET, 31-12-2006 | | | | | | |
| Cash and cash balances with central banks | 2 386 | 3 | 1 436 | 0 | 0 | 3 826 |
| Financial assets | 263 592 | 27 172 | 19 598 | 66 | 0 | 310 427 |
| Held for trading | 66 785 | 8 | 836 | 0 | 0 | 67 630 |
| Designated at fair value through profit or loss | 46 047 | 10 667 | 467 | 0 | 0 | 57 182 |
| Available for sale | 28 607 | 13 358 | 5 866 | 37 | 0 | 47 868 |
| Loans and receivables | 112 514 | 237 | 12 413 | 30 | 0 | 125 195 |
| Held to maturity | 9 313 | 2 901 | 0 | 0 | 0 | 12 213 |
| Hedging derivatives | 325 | 0 | 14 | 0 | 0 | 339 |
| Reinsurers' share in technical provisions, insurance | 0 | 290 | 0 | 0 | 0 | 290 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | -175 | 0 | 0 | 0 | 0 | -175 |
| Accrued interest income | 2 293 | 308 | 171 | 1 | 0 | 2 773 |
| Tax assets | 640 | 94 | 19 | 9 | 0 | 761 |
| Current tax assets | 117 | 28 | 0 | 8 | 0 | 154 |
| Deferred tax assets | 522 | 66 | 19 | 1 | 0 | 608 |
| Non-current assets held for sale and disposal groups | 53 | 0 | 29 | 10 | 0 | 92 |
| Investments in associated companies | 511 | 0 | 11 | 0 | 0 | 522 |
| Investment property | 216 | 167 | 30 | 0 | 0 | 413 |
| Property and equipment | 1 544 | 97 | 205 | 60 | 0 | 1 906 |
| Goodwill and other intangible assets | 684 | 214 | 428 | 661 | 0 | 1 988 |
| Other assets | 1 421 | 947 | 103 | 107 | 0 | 2 578 |
| **TOTAL ASSETS** | **273 170** | **29 285** | **22 030** | **915** | **0** | **325 400** |
| Financial liabilities | 253 187 | 9 156 | 19 322 | 618 | 0 | 282 282 |
| Held for trading | 36 634 | 0 | 784 | 5 | 0 | 37 423 |
| Designated at fair value through profit or loss | 47 564 | 9 156 | 0 | 0 | 0 | 56 720 |
| Measured at amortised cost | 168 940 | 0 | 18 491 | 613 | 0 | 188 044 |
| Hedging derivatives | 49 | 0 | 47 | 0 | 0 | 96 |
| Gross technical provisions, insurance | 0 | 15 965 | 0 | 0 | 0 | 15 965 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | 0 | 0 | 0 | 0 |
| Accrued interest expense | 1 558 | 2 | 118 | 17 | 0 | 1 694 |
| Tax liabilities | 450 | 185 | 141 | 69 | 0 | 846 |
| Current tax liabilities | 380 | 81 | 46 | 26 | 0 | 534 |
| Deferred tax liabilities | 70 | 104 | 95 | 44 | 0 | 312 |
| Liabilities associated with disposal groups | 0 | 0 | 38 | 4 | 0 | 43 |
| Provisions for risks and charges | 407 | 26 | 61 | 0 | 0 | 493 |
| Other liabilities | 4 392 | 827 | 234 | 172 | 0 | 5 624 |
| **TOTAL LIABILITIES** | **259 993** | **26 161** | **19 913** | **880** | **0** | **306 947** |
| Acquisitions of property and equipment and intangible assets, including goodwill | 730 | 129 | 83 | 128 | 0 | 1 070 |

| In millions of EUR | Banking | Insurance | European private banking | Holding-company activities | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|---|
| BALANCE SHEET, 31-12-2007 | | | | | | |
| Cash and cash balances with central banks | 2 898 | 87 | 1 620 | 0 | 0 | 4 605 |
| Financial assets | 294 169 | 28 157 | 14 876 | 13 | 0 | 337 215 |
| Held for trading | 72 877 | 54 | 628 | 0 | 0 | 73 559 |
| Designated at fair value through profit or loss | 34 798 | 10 690 | 390 | 0 | 0 | 45 878 |
| Available for sale | 26 158 | 14 347 | 5 566 | 3 | 0 | 46 075 |
| Loans and receivables | 150 517 | 321 | 8 272 | 10 | 0 | 159 119 |
| Held to maturity | 9 296 | 2 745 | 0 | 0 | 0 | 12 041 |
| Hedging derivatives | 524 | 0 | 20 | 0 | 0 | 544 |
| Reinsurers' share in technical provisions, insurance | 0 | 291 | 0 | 0 | 0 | 291 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | -223 | 0 | 0 | 0 | 0 | -223 |
| Accrued interest income | 2 853 | 304 | 158 | 0 | 0 | 3 315 |
| Tax assets | 679 | 215 | 21 | 4 | 0 | 919 |
| Current tax assets | 102 | 32 | 1 | 3 | 0 | 138 |
| Deferred tax assets | 577 | 183 | 20 | 1 | 0 | 781 |
| Non-current assets held for sale and disposal groups | 41 | 0 | 0 | 0 | 0 | 41 |
| Investments in associated companies | 620 | 0 | 14 | 0 | 0 | 634 |
| Investment property | 448 | 106 | 39 | 0 | 0 | 593 |
| Property and equipment | 1 760 | 215 | 190 | 69 | 0 | 2 234 |
| Goodwill and other intangible assets | 1 866 | 509 | 433 | 692 | 0 | 3 501 |
| Other assets | 1 341 | 858 | 130 | 144 | 0 | 2 473 |
| **TOTAL ASSETS** | **306 453** | **30 741** | **17 481** | **923** | **0** | **355 597** |
| Financial liabilities | 281 747 | 9 043 | 17 743 | 802 | 0 | 309 335 |
| Held for trading | 40 593 | 0 | 399 | 0 | 0 | 40 992 |
| Designated at fair value through profit or loss | 36 400 | 8 962 | 0 | 0 | 0 | 45 362 |
| Measured at amortised cost | 204 635 | 81 | 17 308 | 802 | 0 | 222 826 |
| Hedging derivatives | 118 | 0 | 37 | 0 | 0 | 155 |
| Gross technical provisions, insurance | 0 | 17 905 | 0 | 0 | 0 | 17 905 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 0 | 0 | 0 | 0 | 0 | 0 |
| Accrued interest expense | 1 952 | 2 | 115 | 18 | 0 | 2 087 |
| Tax liabilities | 469 | 177 | 95 | 76 | 0 | 816 |
| Current tax liabilities | 388 | 59 | 33 | 1 | 0 | 481 |
| Deferred tax liabilities | 81 | 118 | 62 | 75 | 0 | 335 |
| Liabilities associated with disposal groups | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions for risks and charges | 401 | 16 | 40 | 0 | 0 | 456 |
| Other liabilities | 5 267 | 742 | 322 | 180 | 0 | 6 511 |
| **TOTAL LIABILITIES** | **289 835** | **27 884** | **18 315** | **1 076** | **0** | **337 110** |
| Acquisitions of property and equipment and intangible assets, including goodwill | 1 471 | 356 | 33 | 130 | 0 | 1 990 |

| In millions of EUR | Belgium | Central & Eastern Europe and Russia | Rest of the world | Inter-segment eliminations | KBC group |
|---|---|---|---|---|---|
| 2006 | | | | | |
| Total income | 6 590 | 2 860 | 3 106 | 0 | 12 556 |
| Total assets (period-end) | 192 526 | 38 588 | 94 286 | 0 | 325 400 |
| Total liabilities (period-end) | 173 841 | 37 900 | 95 207 | 0 | 306 947 |
| Acquisitions of property and equipment and intangible assets, including goodwill (period-end) | 298 | 670 | 102 | 0 | 1 070 |
| 2007 | | | | | |
| Total income | 7 652 | 3 092 | 2 526 | 0 | 13 271 |
| Total assets (period-end) | 191 319 | 52 031 | 112 247 | 0 | 355 597 |
| Total liabilities (period-end) | 184 762 | 47 144 | 105 203 | 0 | 337 110 |
| Acquisitions of property and equipment and intangible assets, including goodwill (period-end) | 412 | 1 491 | 87 | 0 | 1 990 |

## NOTES TO THE INCOME STATEMENT

## Note 3: Net interest income

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **4 158** | **4 089** |
| Interest income | 12 679 | 15 396 |
| Available-for-sale assets | 2 037 | 1 957 |
| Loans and receivables | 6 344 | 8 352 |
| Held-to-maturity investments | 486 | 516 |
| Other assets not at fair value | 76 | 141 |
| *Subtotal, interest income from financial assets not measured at fair value through profit or loss* | *8 944* | *10 966* |
| *of which impaired financial assets* | *34* | *10* |
| Financial assets held for trading | 1 241 | 1 609 |
| Hedging derivatives | 752 | 737 |
| Other financial assets at fair value through profit or loss | 1 742 | 2 084 |
| Interest expense | -8 521 | -11 307 |
| Financial liabilities measured at amortised cost | -5 988 | -8 287 |
| Other liabilities not at fair value | -9 | -15 |
| Investment contracts at amortised cost | 0 | 0 |
| *Subtotal, interest expense for financial assets not measured at fair value through profit or loss* | *-5 997* | *-8 302* |
| Financial liabilities held for trading | -303 | -480 |
| Hedging derivatives | -805 | -680 |
| Other financial liabilities at fair value through profit or loss | -1 416 | -1 846 |

## Note 4: Dividend income

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **211** | **256** |
| Shares held for trading | 86 | 81 |
| Shares initially recognised at fair value through profit or loss | 16 | 23 |
| Available-for-sale shares | 109 | 152 |

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

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **1 370** | **1 642** |
| Trading instruments (including interest and fair value changes in trading derivatives) | 1 187 | 1 557 |
| Other financial instruments initially recognised at fair value through profit or loss | -345 | -35 |
| Foreign exchange trading | 528 | 115 |
| Fair value adjustments in hedge accounting | 0 | 6 |
| Micro hedge | 0 | 2 |
| Fair value hedges | 1 | 2 |
| Changes in the fair value of the hedged items | -86 | -11 |
| Changes in the fair value of the hedging derivatives, including discontinuation | 87 | 13 |
| Cashflow hedges | -1 | 0 |
| Changes in the fair value of the hedging derivatives, ineffective portion | -1 | 0 |
| Hedges of net investments in foreign operations, in effective portion | 0 | 0 |
| Portfolio hedge of interest rate risk | 0 | 4 |
| Fair value hedge of interest rate risk | 0 | 0 |
| Changes in the fair value of the hedged items | -234 | -48 |
| Changes in the fair value of the hedging derivatives, including discontinuation | 234 | 48 |
| Cashflow hedges of interest rate risk | 0 | 4 |
| Changes in the fair value of the hedging derivatives, ineffective portion | 0 | 4 |

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under 'Portfolio hedge of interest rate risk', the interest concerned is recognised under 'Net interest income'. Changes in the fair value of these derivatives are recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of 'Net (un)realised gains from financial instruments at fair value through profit or loss' is zero.
  - For other ALM derivatives, the interest in question is recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss' (a negative 304 and a negative 71 million euros in 2006 and 2007, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, *the dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to a positive 25 million euros for 2006 and to 120 million euros for 2007. These are included in the 528 and 115 million euros shown in the table.
- The total change in fair value taken to the income statement in 2007, where the fair value was estimated using techniques based on unobservable parameters, was almost entirely accounted for by CDOs in the group's portfolios. The changes in the fair value of these instruments came to 165 million euros in 2007 (insignificant in 2006). Reasonable changes in the assumptions resulted in an additional negative value adjustment of 165 million euros before tax.
- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Day 1 profit is recognised for structuring CDOs. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):

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

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

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **513** | **682** |
| Fixed-income securities | 35 | -152 |
| Shares | 477 | 834 |

## Note 7: Net fee and commission income

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **1 865** | **1 993** |
| Fee and commission income | 2 977 | 3 149 |
| Securities and asset management | 2 025 | 2 153 |
| Margin on life insurance investment contracts without DPF (deposit accounting) | 68 | 37 |
| Commitment credit | 152 | 184 |
| Payments | 417 | 425 |
| Other | 315 | 350 |
| Fee and commission expense | -1 112 | -1 155 |
| Commission paid to intermediaries | -403 | -422 |
| Other | -710 | -733 |

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

## Note 8: Other net income

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **1 119** | **619** |
| Of which gains or losses on | | |
| - Sale of loans and receivables | 58 | 18 |
| of which Sale of bad loans, Kredyt Bank | 37 | – |
| - Sale of held-to-maturity investments | 1 | 1 |
| - Sale of financial liabilities measured at amortised cost | 0 | 0 |
| - Other: | 1 061 | 600 |
| Sale of buildings in Prague, ČSOB | 36 | 2 |
| Sale of Banco Urquijo, KBL EPB | 501 | – |
| Sale of BCC and Banksys shareholdings, KBC Bank | 60 | – |
| Sale of building in Warsaw, WARTA | 23 | – |
| Sale of Banca KBL Fumagalli Soldan, KBL EPB | – | 14 |
| Refund from the Belgian Deposit Protection Fund | – | 44 |
| Sale of GBC shareholding, K&H Bank | – | 35 |

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

## Note 9: Technical accounts, insurance

| In millions of EUR | Insurance contracts, life | Insurance contracts, non-life | Insurance contracts, total | Investment contracts with DPF, life | Investment contracts without DPF, life | Non-technical account | Total |
|---|---|---|---|---|---|---|---|
| 2006 | | | | | | | |
| Net interest income | 0 | 0 | 0 | 0 | 0 | 595 | 595 |
| Gross earned premiums, insurance | 764 | 1 748 | 2 512 | 809 | 0 | 0 | 3 321 |
| Dividend income | 0 | 0 | 0 | 0 | 0 | 70 | 70 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | -2 | -2 |
| Net realised gains from available-for-sale assets | 0 | 0 | 0 | 0 | 0 | 261 | 261 |
| Net fee and commission income | -83 | -282 | -366 | -21 | 35 | 93 | -259 |
| Other net income | 0 | 0 | 0 | 0 | 0 | 94 | 94 |
| **TOTAL INCOME** | **680** | **1 466** | **2 146** | **788** | **35** | **1 112** | **4 080** |
| Operating expenses | -70 | -323 | -393 | -28 | -19 | -90 | -530 |
| Impairment | 0 | 0 | 0 | 0 | 0 | -9 | -9 |
| Gross technical charges, insurance | -757 | -1 045 | -1 802 | -1 057 | 16 | 0 | -2 843 |
| Ceded reinsurance result | -2 | -57 | -59 | 0 | 0 | -5 | -63 |
| Share in results of associated companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation to the technical accounts | 378 | 235 | 612 | 305 | 0 | -918 | 0 |
| **PROFIT BEFORE TAX** | **229** | **276** | **505** | **8** | **32** | **91** | **635** |
| Income tax expense | – | – | – | – | – | – | -130 |
| Net post-tax income from discontinued operations | – | – | – | – | – | – | 0 |
| **PROFIT AFTER TAX** | – | – | – | – | – | – | **505** |
| attributable to minority interests | – | – | – | – | – | – | 30 |
| **attributable to equity holders of the parent** | – | – | – | – | – | – | **535** |

| In millions of EUR | Insurance contracts, life | Insurance contracts, non-life | Insurance contracts, total | Investment contracts with DPF, life | Investment contracts without DPF, life | Non-technical account | Total |
|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | |
| Net interest income | 0 | 0 | 0 | 0 | 0 | 669 | 669 |
| Gross earned premiums, insurance | 804 | 1 826 | 2 630 | 1 359 | 0 | 0 | 3 989 |
| Dividend income | 0 | 0 | 0 | 0 | 0 | 136 | 136 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | -74 | -74 |
| Net realised gains from available-for-sale assets | 0 | 0 | 0 | 0 | 0 | 484 | 484 |
| Net fee and commission income | -86 | -315 | -402 | -28 | 19 | 43 | -368 |
| Other net income | 0 | 0 | 0 | 0 | 0 | 69 | 69 |
| **TOTAL INCOME** | **717** | **1 511** | **2 228** | **1 331** | **19** | **1 327** | **4 906** |
| Operating expenses | -88 | -359 | -447 | -31 | -18 | -71 | -567 |
| Impairment | 0 | 0 | 0 | 0 | 0 | -25 | -25 |
| Gross technical charges, insurance | -689 | -1 085 | -1 774 | -1 635 | 7 | 0 | -3 402 |
| Ceded reinsurance result | 0 | -59 | -59 | 0 | 0 | -5 | -64 |
| Share in results of associated companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation to the technical accounts | 425 | 293 | 718 | 382 | 0 | -1 100 | 0 |
| **PROFIT BEFORE TAX** | **364** | **301** | **665** | **48** | **8** | **125** | **847** |
| Income tax expense | – | – | – | – | – | – | -102 |
| Net post-tax income from discontinued operations | – | – | – | – | – | – | 0 |
| **PROFIT AFTER TAX** | – | – | – | – | – | – | **746** |
| attributable to minority interests | – | – | – | – | – | – | 5 |
| **attributable to equity holders of the parent** | – | – | – | – | – | – | **741** |

- The presentation of this note has been changed (retroactively from 2006) to make it correspond with the presentation of the income statement.
- In conformity with the relevant IFRS, the figures relating to gross earned premiums do not include investment contracts without DPF (which largely correspond to unit-linked contracts). See Note 10.

## Note 10: Gross earned premiums, life insurance

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| Total | 1 572 | 2 163 |
| Breakdown by type | | |
| Accepted reinsurance | 30 | 23 |
| Primary business | 1 542 | 2 140 |
| Breakdown of primary business | | |
| Individual versus group | | |
| Individual premiums, including unit-linked insurance | 1 311 | 1 867 |
| Premiums under group contracts | 231 | 273 |
| Periodic versus single | | |
| Periodic premiums | 732 | 724 |
| Single premiums | 810 | 1 416 |
| Non-bonus versus bonus contracts | | |
| Premiums from non-bonus contracts | 181 | 213 |
| Premiums from bonus contracts | 1 259 | 1 819 |
| Unit-linked | 102 | 108 |

- As required under IFRS, deposit accounting is used for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under the gross earned premiums (and gross technical charges) heading, but that the margins on them are reported under net fee and commission income. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2006 accounted for premium income of 2.65 billion euros and in 2007 for premium income of 1.24 billion euros.

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

| In millions of EUR | Gross earned premiums | Gross claims incurred | Gross operating expenses | Ceded reinsurance | Total |
|---|---|---|---|---|---|
| 2006 | | | | | |
| Total | 1 748 | -1 089 | -527 | -57 | 74 |
| Accepted reinsurance | 274 | -172 | -65 | -24 | 13 |
| Primary business | 1 474 | -918 | -462 | -33 | 61 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 117 | -55 | -34 | -1 | 27 |
| Industrial accidents (class 1) | 75 | -58 | -16 | 0 | 1 |
| Motor, third-party liability (class 10) | 450 | -368 | -129 | 10 | -38 |
| Motor, other classes (classes 3, 7) | 244 | -133 | -73 | -1 | 38 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 46 | -24 | -13 | -10 | -2 |
| Fire and other damage to property (classes 8, 9) | 381 | -166 | -139 | -21 | 56 |
| General third-party liability (class 13) | 99 | -69 | -37 | -4 | -12 |
| Credit and suretyship (classes 14, 15) | 5 | -5 | -2 | 1 | -1 |
| Miscellaneous pecuniary losses (class 16) | 13 | -3 | -8 | -6 | -4 |
| Legal assistance (class 17) | 35 | -30 | -9 | 0 | -3 |
| Assistance (class 18) | 8 | -5 | -3 | -1 | 0 |
| 2007 | | | | | |
| Total | 1 826 | -1 120 | -590 | -59 | 57 |
| Accepted reinsurance | 245 | -128 | -62 | -28 | 28 |
| Primary business | 1 581 | -992 | -527 | -32 | 30 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 123 | -66 | -35 | -2 | 19 |
| Industrial accidents (class 1) | 80 | -50 | -16 | 1 | 15 |
| Motor, third-party liability (class 10) | 489 | -373 | -150 | 0 | -36 |
| Motor, other classes (classes 3, 7) | 256 | -144 | -80 | -1 | 31 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 47 | -28 | -13 | -7 | -1 |
| Fire and other damage to property (classes 8, 9) | 420 | -200 | -171 | -21 | 29 |
| General third-party liability (class 13) | 100 | -104 | -41 | 6 | -39 |
| Credit and suretyship (classes 14, 15) | 8 | 1 | -3 | -2 | 5 |
| Miscellaneous pecuniary losses (class 16) | 12 | 1 | -4 | -6 | 3 |
| Legal assistance (class 17) | 37 | -25 | -10 | 0 | 2 |
| Assistance (class 18) | 9 | -4 | -3 | -1 | 1 |

## Note 12: Operating expenses

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| Total | -4 925 | -5 219 |
| Staff expenses | -2 970 | -3 148 |
| of which share-based payment (equity-settled) | -2 | -1 |
| of which share-based payment (cash-settled) | -61 | -25 |
| General administrative expenses | -1 631 | -1 740 |
| Depreciation and amortisation of fixed assets | -359 | -361 |
| Provisions for risks and charges | 36 | 31 |

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes and utilities.
- Share-based payments are included under staff expenses, and can be broken down as follows:
  **A. Main cash-settled share-based payment arrangements**
  KBC Financial Products established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009. At the end of 2007, KBC Financial Products recognised an outstanding liability of 88 million euros in this regard (129 million euros at year-end 2006).
  **B. Main equity-settled share-based payments**
  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to members of staff of the company and various subsidiaries. There were share option plans for all members of staff and plans reserved for particular members of staff. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on Euronext Brussels.
  The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.
  KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.
- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.
- In 2007, there was another capital increase reserved for KBC group employees, who were given the opportunity to buy shares at an attractive price. This employee benefit of 1.3 million euros was recognised as a staff expense against an entry under equity (in 2006, this employee benefit came to 1.7 million euros).
- An overview of the number of stock options for staff and the weighted averages of the exercise prices are shown in the table. The average price of the KBC share came to 95.80 euros during 2007. In 2007, 7 300 new KBC share options for personnel were issued. The fair value of this employee benefit was determined using an option valuation model that takes into account the specific features of the options allocated, including the exercise price (97.94 euros), life (7 years) and limited transferability.

| | 2006 | | 2007 | |
|---|---|---|---|---|
| Options | Number of options[1] | Average exercise price | Number of options[1] | Average exercise price |
| Outstanding at beginning of period | 3 669 371 | 41.81 | 2 480 200 | 43.31 |
| Granted during period | 63 730 | 89.21 | 7 300 | 97.94 |
| Exercised during period | -1 247 701 | 41.46 | -1 285 437 | 40.80 |
| Expired during period | -5 200 | 41.61 | -75 650 | 34.50 |
| Forfeited during period | – | – | – | – |
| Outstanding at end of period[2] | 2 480 200 | 43.31 | 1 126 413 | 47.12 |
| Exercisable at end of period | 1 911 113 | 42.50 | 921 583 | 42.24 |

1 In share equivalents.

2 2006: range of exercise prices: 28.3–89.21 euros; weighted average residual term to maturity: 56 months;
2007: range of exercise prices: 28.3–97.94 euros; weighted average residual term to maturity: 46 months.

## Note 13: Personnel

| | 2006 | 2007 |
|---|---|---|
| Total average number of persons employed (in full-time equivalents) | 50 189 | 55 888 |
| Breakdown by legal entity | | |
| KBC Bank | 36 462 | 41 059 |
| KBC Insurance | 7 415 | 8 394 |
| KBL EPB | 3 268 | 2 668 |
| KBC Group NV (holding company) | 3 044 | 3 767 |
| Breakdown by employee classification | | |
| Blue-collar staff | 332 | 939 |
| White-collar staff | 48 429 | 53 298 |
| Senior management | 1 428 | 1 651 |
| Other | 0 | 0 |

- The figures in the table refer to the total average workforce in 2007. Given the considerable amount of acquisition activity in 2007, they differ from the end-of-year totals shown in the 'Corporate social responsibility' section.

## Note 14: Impairment (income statement)

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **-175** | **-267** |
| Impairment on loans and receivables | -177 | -185 |
| Breakdown by type | | |
| Specific impairment, on-balance-sheet lending | -177 | -207 |
| Specific impairment, off-balance-sheet credit commitments | -8 | -17 |
| Portfolio-based impairment | 8 | 39 |
| Breakdown by business unit | | |
| Belgium | -32 | -59 |
| CEER | -146 | -85 |
| Merchant Banking | 3 | -6 |
| European Private Banking | -2 | -33 |
| Impairment on available-for-sale assets | -6 | -75 |
| Breakdown by type | | |
| Shares | -12 | -66 |
| Other | 6 | -9 |
| Impairment on goodwill | -1 | 0 |
| Impairment on other | 9 | -7 |
| Intangible fixed assets, other than goodwill | -1 | -4 |
| Property and equipment | 10 | -1 |
| Held-to-maturity assets | 0 | 1 |
| Associated companies (goodwill) | 0 | 0 |
| Other | 0 | -4 |

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers (mainly term loans).
- Impairment on goodwill. In 2007, 0 million euros was posted under this heading. In 2006, it had included an amount of 1 million euros for a KBL group company (European Private Banking Business Unit). In each case, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2007, this heading included primarily a 4-million-euro allocation to impairment for various intangible assets in the KBC group. In 2006, this heading had included mainly a 7-million-euro reversal of impairment on property in Poland (CEER Business Unit). Impairment always relates to the difference between the carrying value before impairment and the value in use of the asset in question.

## Note 15: Share in results of associated companies

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| **Total** | **45** | **56** |
| Of which Nova Ljubljanska banka | 33 | 48 |

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

## Note 16: Income tax expense

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| Total | -1 002 | -970 |
| Breakdown by type | | |
| Current taxes on income | -944 | -877 |
| Deferred taxes on income | -58 | -92 |
| Tax components | | |
| Profit before tax | 4 595 | 4 373 |
| Income tax at the Belgian statutory rate | 33.99% | 33.99% |
| Income tax calculated | -1 562 | -1 486 |
| Plus/minus tax effects attributable to | | |
| differences in tax rates, Belgium – abroad | 183 | 158 |
| tax-free income[1] | 471 | 590 |
| adjustments related to prior years | -5 | 19 |
| adjustments, opening balance of deferred taxes due to change in tax rate | 2 | -3 |
| unused tax losses and unused tax credits to reduce current tax expense | 15 | 17 |
| unused tax losses and unused tax credits to reduce deferred tax expense | 0 | 1 |
| other (mainly non-deductible expenses) | -106 | -265 |
| Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised[2]. | 998 | 997 |

1 Primarily gains realised on the sale of shares.

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

- For information on tax assets and tax liabilities, see Note 27.

## Note 17: Earnings per share

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| Basic earnings per share | | |
| Net profit attributable to equity holders of the parent | 3 430 | 3 281 |
| Weighted average number of shares outstanding (‘000 of units) | 354 265 | 346 833 |
| Basic earnings per share (in EUR) | 9.68 | 9.46 |
| Diluted earnings per share | | |
| Net profit attributable to equity holders of the parent | 3 430 | 3 281 |
| Elimination of interest expense on freely convertible debt (net of tax effect) | 0 | 0 |
| Net profit used to determine diluted EPS | 3 430 | 3 281 |
| Weighted average number of shares outstanding (‘000 of units) | 354 265 | 346 833 |
| Dilutive potential shares (‘000 of units) | 3 251 | 1 565 |
| Weighted average number of shares for diluted earnings (‘000 of units) | 357 515 | 348 398 |
| Diluted earnings per share (in EUR) | 9.59 | 9.42 |

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

# NOTES TO THE BALANCE SHEET

## Note 18: Financial assets and liabilities, breakdown by portfolio and product

### FINANCIAL ASSETS

| In millions of EUR | Held for trading | Designated at fair value[1] | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 11 463 | 14 550 | 0 | 18 302 | – | – | – | 44 315[3] |
| Loans and advances to customers[b] | 3 442 | 16 818 | 0 | 106 893 | – | – | – | 127 152 |
| Discount and acceptance credit | 0 | 0 | 0 | 223 | – | – | – | 223 |
| Consumer credit | 0 | 0 | 0 | 3 232 | – | – | – | 3 232 |
| Mortgage loans | 0 | 11 089 | 0 | 28 840 | – | – | – | 39 929 |
| Term loans | 3 442 | 5 729 | 0 | 53 194 | – | – | – | 62 365 |
| Finance leasing | 0 | 0 | 0 | 6 031 | – | – | – | 6 031 |
| Current account advances | 0 | 0 | 0 | 7 578 | – | – | – | 7 578 |
| Securitised loans | 0 | 0 | 0 | 302 | – | – | – | 302 |
| Other | 0 | 0 | 0 | 7 493 | – | – | – | 7 493 |
| Equity instruments | 16 260 | 168 | 5 721 | – | – | – | – | 22 150 |
| Investment contracts (insurance) | – | 9 304 | – | – | – | – | – | 9 304 |
| Debt instruments issued by | 19 107 | 16 342 | 42 147 | – | 12 213 | – | – | 89 809 |
| Public bodies | 12 372 | 9 718 | 27 882 | – | 10 736 | – | – | 60 708 |
| Credit institutions and investment firms | 4 215 | 1 793 | 6 518 | – | 1 021 | – | – | 13 547 |
| Corporates | 2 521 | 4 831 | 7 747 | – | 456 | – | – | 15 554 |
| Derivatives | 17 357 | – | – | – | – | 339 | – | 17 697 |
| **Total carrying value** | **67 630** | **57 182** | **47 868** | **125 195** | **12 213** | **339** | **–** | **310 427** |
| Accrued interest expense[2] | 144 | 286 | 700 | 906 | 283 | 411 | – | 2 730 |
| Carrying value including accrued interest income | 67 774 | 57 468 | 48 568 | 126 100 | 12 497 | 750 | – | 313 157 |
| Fair value | 67 774 | 57 468 | 48 568 | 127 258 | 12 478 | 750 | – | 314 296 |
| *a Of which reverse repos* | | | | | | | | *32 879* |
| *b Of which reverse repos* | | | | | | | | *7 014* |
| 31-12-2007 | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 16 098 | 15 881 | 0 | 21 865 | – | – | – | 53 843[3] |
| Loans and advances to customers[b] | 2 067 | 7 730 | 0 | 137 254 | – | – | – | 147 051 |
| Discount and acceptance credit | 0 | 0 | 0 | 718 | – | – | – | 718 |
| Consumer credit | 0 | 0 | 0 | 3 893 | – | – | – | 3 893 |
| Mortgage loans | 0 | 3 254 | 0 | 43 871 | – | – | – | 47 125 |
| Term loans | 2 067 | 4 269 | 0 | 66 378 | – | – | – | 72 714 |
| Finance leasing | 0 | 0 | 0 | 6 883 | – | – | – | 6 883 |
| Current account advances | 0 | 0 | 0 | 7 853 | – | – | – | 7 853 |
| Securitised loans | 0 | 0 | 0 | 264 | – | – | – | 264 |
| Other | 0 | 207 | 0 | 7 396 | – | – | – | 7 603 |
| Equity instruments | 17 008 | 219 | 4 979 | – | – | – | – | 22 207 |
| Investment contracts (insurance) | – | 9 066 | – | – | – | – | – | 9 066 |
| Debt instruments issued by | 16 697 | 12 982 | 41 095 | – | 12 041 | – | – | 82 816 |
| Public bodies | 5 268 | 9 269 | 21 507 | – | 10 858 | – | – | 46 902 |
| Credit institutions and investment firms | 4 131 | 1 735 | 8 152 | – | 811 | – | – | 14 829 |
| Corporates | 7 298 | 1 979 | 11 436 | – | 372 | – | – | 21 085 |
| Derivatives | 21 689 | – | – | – | – | 544 | – | 22 232 |
| **Total carrying value** | **73 559** | **45 878** | **46 075** | **159 119** | **12 041** | **544** | **–** | **337 215** |
| Accrued interest income[2] | 348 | 334 | 676 | 1 488 | 279 | 181 | – | 3 307 |
| Carrying value including accrued interest income | 73 907 | 46 212 | 46 750 | 160 607 | 12 320 | 725 | – | 340 522 |
| Fair value | 73 907 | 46 212 | 46 750 | 159 782 | 12 222 | 725 | – | 339 598 |
| *a Of which reverse repos* | | | | | | | | *33 503* |
| *b Of which reverse repos* | | | | | | | | *6 339* |

1 Designated at fair value through profit or loss.
2 Excluding accrued interest income related to cash and cash balances with central banks:
- in 2006, 43 million euros; including accrued interest income, 3 869 million euros was posted under this heading;
- in 2007, 8 million euros; including accrued interest income, 4 613 million euros was posted under this heading.

3 Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months amounted to 28 678 million euros in 2006 and 30 696 million euros in 2007.

## FINANCIAL LIABILITIES

| In millions of EUR | Held for trading | Designated at fair value[1] | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Deposits from credit institutions and investment firms[c] | 5 426 | 15 939 | – | – | – | – | 38 406 | 59 771[2] |
| Deposits from customers and debt certificates[d] | 1 399 | 31 625 | – | – | – | – | 146 464 | 179 488 |
| Deposits from customers | 270 | 16 242 | – | – | – | – | 109 678 | 126 189 |
| Demand deposits | 0 | 0 | – | – | – | – | 36 553 | 36 553 |
| Time deposits | 270 | 16 242 | – | – | – | – | 39 501 | 56 012 |
| Savings deposits | 0 | 0 | – | – | – | – | 29 629 | 29 629 |
| Special deposits | 0 | 0 | – | – | – | – | 2 736 | 2 736 |
| Other deposits | 0 | 0 | – | – | – | – | 1 259 | 1 259 |
| Debt certificates | 1 129 | 15 383 | – | – | – | – | 36 787 | 53 299 |
| Certificates of deposit | 0 | 9 239 | – | – | – | – | 15 685 | 24 924 |
| Customer savings certificates | 0 | 0 | – | – | – | – | 2 714 | 2 714 |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible bonds | 1 129 | 5 199 | – | – | – | – | 13 079 | 19 408 |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible subordinated liabilities | 0 | 945 | – | – | – | – | 5 308 | 6 253 |
| Liabilities under investment contracts | – | 9 156 | – | – | – | – | – | 9 156 |
| Derivatives | 24 082 | – | – | – | – | 96 | – | 24 178 |
| Short positions | 5 738 | – | – | – | – | – | – | 5 738 |
| In equity instruments | 1 418 | – | – | – | – | – | – | 1 418 |
| In debt instruments | 4 320 | – | – | – | – | – | – | 4 320 |
| Other | 779 | 0 | – | – | – | – | 3 173 | 3 952 |
| **Total carrying value** | **37 423** | **56 720** | – | – | – | **96** | **188 044** | **282 282** |
| Accrued interest expense | 208 | 184 | – | – | – | 453 | 849 | 1 694 |
| Carrying value including accrued interest expense | 37 630 | 56 904 | – | – | – | 549 | 188 893 | 283 976 |
| Fair value | 37 630 | 56 904 | – | – | – | 549 | 188 716 | 283 800 |
| *c Of which repos* | | | | | | | | *18 333* |
| *d Of which repos* | | | | | | | | *9 071* |
| 31-12-2007 | | | | | | | | |
| Deposits from credit institutions and investment firms[c] | 7 409 | 15 028 | – | – | – | – | 50 667 | 73 104[2] |
| Deposits from customers and debt certificates[d] | 2 452 | 21 373 | – | – | – | – | 168 310 | 192 135 |
| Deposits from customers | 0 | 13 932 | – | – | – | – | 123 415 | 137 347 |
| Demand deposits | 0 | 1 415 | – | – | – | – | 41 073 | 42 488 |
| Time deposits | 0 | 12 516 | – | – | – | – | 50 840 | 63 357 |
| Savings deposits | 0 | 0 | – | – | – | – | 27 079 | 27 079 |
| Special deposits | 0 | 0 | – | – | – | – | 3 444 | 3 444 |
| Other deposits | 0 | 0 | – | – | – | – | 979 | 979 |
| Debt certificates | 2 452 | 7 441 | – | – | – | – | 44 895 | 54 788 |
| Certificates of deposit | 0 | 2 239 | – | – | – | – | 15 699 | 17 937 |
| Customer savings certificates | 0 | 0 | – | – | – | – | 2 956 | 2 956 |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible bonds | 2 452 | 4 156 | – | – | – | – | 19 716 | 26 324 |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 |
| Non-convertible subordinated liabilities | 0 | 1 046 | – | – | – | – | 6 524 | 7 570 |
| Liabilities under investment contracts | – | 8 928 | – | – | – | – | – | 8 928 |
| Derivatives | 26 042 | – | – | – | – | 155 | – | 26 197 |
| Short positions | 4 845 | – | – | – | – | – | – | 4 845 |
| In equity instruments | 3 724 | – | – | – | – | – | – | 3 724 |
| In debt instruments | 1 120 | – | – | – | – | – | – | 1 120 |
| Other | 243 | 34 | – | – | – | – | 3 848 | 4 126 |
| **Total carrying value** | **40 992** | **45 362** | – | – | – | **155** | **222 826** | **309 335** |
| Accrued interest expense | 307 | 412 | – | – | – | 337 | 1 032 | 2 087 |
| Carrying value including accrued interest expense | 41 298 | 45 774 | – | – | – | 492 | 223 858 | 311 422 |
| Fair value | 41 298 | 45 774 | – | – | – | 492 | 223 426 | 310 990 |
| *c Of which repos* | | | | | | | | *21 979* |
| *d Of which repos* | | | | | | | | *8 284* |

1 Designated at fair value through profit or loss.

2 Of which deposits from banks repayable on demand amounted to: 7 830 million euros in 2006 and 14 564 million euros in 2007.

- Financial assets and liabilities are grouped into categories (*portfolios*). These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- As stated in Note 1a, the balance sheet presentation now reflects a portfolio instead of a product-based approach. However, in Note 18, the financial assets and liabilities are presented in a table with both a portfolio and a product breakdown. The reference figures for 31 December 2006 have been restated to allow comparison with the information presented in the new breakdown. The following changes were made:
  - A number of non-interest-bearing assets and liabilities (classified in the 2006 annual report as 'loans and advances to customers') are now recognised under 'other assets' and 'other liabilities'.
  - Short positions (classified in the 2006 annual report as 'other liabilities') have been reclassified as 'financial liabilities held for trading').
  - Derivatives (classified in the 2006 annual report entirely under 'held for trading') have now been broken down into the 'held for trading' and 'hedging derivatives' categories.
  - The breakdown by counterparty type – such as credit institutions, customers, etc. – (based on the regulatory definition in the 2006 annual report) is now based on Basel II definitions. The main change relates to reclassification of investment firms as credit institutions.
  - Warrants (classified in the 2006 annual report as 'equity instruments') have been reclassified as 'derivatives').
  - In order to bring the classification into line with the measurement method used, a portion of the variable-rate mortgage loans (11 089 million euros on 31 December 2006) – classified in the 2006 annual report as 'loans and receivables' – have, together with some of the funding, now come under 'designated at fair value through profit or loss'.
  - A portion of the 'term loans' (i.e. for certain Central and Eastern European group companies) have been reclassified as 'consumer credit'.
  - Impairment (in Note 20 of the 2006 annual report under 'other') is now broken down per relevant product type.
  - Part of the 'other deposits' heading has been reclassified as 'time deposits'.
- Financial assets and liabilities at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued as follows:
  - When readily and regularly available, published price quotations in active markets (from dealers, brokers, regulatory agencies, etc.) accessible to KBC are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices; no model is involved. Financial instruments are initially valued at mid- or closing prices. Market value adjustments are applied to cover close-out costs, which means that financial assets are measured at bid prices and financial liabilities at ask prices. Financial assets and liabilities valued using the above methodology include spot foreign exchange contracts, futures, exchange-traded shares and share options and government bonds.
  - If there is no active market, fair value will be obtained using a valuation technique (e.g., discounted cash flow analysis and option pricing techniques) based on the prices from observable current market transactions in the same instruments, or based on available observable market data obtained from independent sources and based on models commonly used by market participants. Financial instruments valued using the above methodology include forward foreign exchange operations/currency forwards, currency swaps, forward rate agreements and interest rate swaps.
  - When valuation parameters are not observable, fair value is based on the best information available in the circumstances, which may include KBC's own data. Such parameters reflect KBC's own assumptions about what information is relevant for the pricing of a financial asset or liability. Financial instruments for which the parameters are not observable include illiquid bonds, illiquid credit default swaps and illiquid structured notes.
- Fair value adjustments (market value adjustments) are recognised on all positions that are measured at fair value with fair value changes being reported in net profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-linked valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
  - Only home loans are securitised. Related financial liabilities came to 0.3 billion euros at year-end 2007 (excluding Home Loan Invest, as the risk is borne for the most part by KBC), the same as the previous year.
- In addition, the following applies to financial liabilities:
  - The impact of KBC's own credit exposure on the fair value of financial liabilities is negligible.
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - The difference between the carrying value and the repayment price of financial liabilities designated at fair value through profit or loss is minor.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchange of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds is for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

## Note 19: Financial assets and liabilities, breakdown by portfolio and geographic location

### FINANCIAL ASSETS

| In millions of EUR | Held for trading | Designated at fair value* | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Belgium | 3 942 | 5 410 | 14 388 | 61 390 | 3 968 | 254 | – | 89 351 |
| Central & Eastern Europe and Russia | 5 921 | 2 176 | 5 851 | 23 720 | 5 327 | 66 | – | 43 061 |
| Rest of the world | 57 768 | 49 596 | 27 628 | 40 085 | 2 919 | 20 | – | 178 015 |
| **Total carrying value** | **67 630** | **57 182** | **47 868** | **125 195** | **12 213** | **339** | **–** | **310 427** |
| 31-12-2007 | | | | | | | | |
| Belgium | 2 963 | 6 192 | 9 609 | 69 800 | 3 784 | 435 | – | 92 784 |
| Central & Eastern Europe and Russia | 9 012 | 1 737 | 5 467 | 33 463 | 5 555 | 67 | – | 55 301 |
| Rest of the world | 61 584 | 37 949 | 30 999 | 55 855 | 2 702 | 42 | – | 189 130 |
| **Total carrying value** | **73 559** | **45 878** | **46 075** | **159 119** | **12 041** | **544** | **–** | **337 215** |

* Designated at fair value through profit or loss.

### FINANCIAL LIABILITIES

| In millions of EUR | Held for trading | Designated at fair value* | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Belgium | 3 287 | 16 560 | – | – | – | 35 | 72 262 | 92 146 |
| Central & Eastern Europe and Russia | 945 | 4 710 | – | – | – | 13 | 30 563 | 36 232 |
| Rest of the world | 33 190 | 35 450 | – | – | – | 47 | 85 218 | 153 905 |
| **Total carrying value** | **37 423** | **56 720** | **–** | **–** | **–** | **96** | **188 044** | **282 282** |
| 31-12-2007 | | | | | | | | |
| Belgium | 2 971 | 11 306 | – | – | – | 77 | 76 491 | 90 844 |
| Central & Eastern Europe and Russia | 665 | 3 462 | – | – | – | 38 | 39 176 | 43 341 |
| Rest of the world | 37 356 | 30 595 | – | – | – | 40 | 107 160 | 175 150 |
| **Total carrying value** | **40 992** | **45 362** | **–** | **–** | **–** | **155** | **222 826** | **309 335** |

* Designated at fair value through profit or loss.

# Note 20: Financial assets, breakdown by portfolio and quality

## FINANCIAL ASSETS

| In millions of EUR | Held for trading | Designated at fair value* | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Unimpaired assets | 67 630 | 57 182 | 46 845 | 124 159 | 12 212 | 339 | – | 308 368 |
| Impaired assets | – | – | 1 102 | 3 178 | 3 | – | – | 4 282 |
| Impairment | – | – | -79 | -2 143 | -1 | – | – | -2 223 |
| **Total carrying value** | **67 630** | **57 182** | **47 868** | **125 195** | **12 213** | **339** | **–** | **310 427** |
| 31-12-2007 | | | | | | | | |
| Unimpaired assets | 73 559 | 45 878 | 45 318 | 157 671 | 12 041 | 544 | – | 335 010 |
| Impaired assets | – | – | 1 217 | 3 573 | 0 | – | – | 4 791 |
| Impairment | – | – | -460 | -2 125 | 0 | – | – | -2 585 |
| **Total carrying value** | **73 559** | **45 878** | **46 075** | **159 119** | **12 041** | **544** | **–** | **337 215** |

* Designated at fair value through profit or loss.

## PAST DUE, BUT NOT IMPAIRED ASSETS*

| In millions of EUR | Less than 30 days past due | 30 days or more, but less than 90 days past due |
|---|---|---|
| 31-12-2006 | | |
| Loans and advances | 3 011 | 553 |
| Debt instruments | 0 | 0 |
| Derivatives | 0 | 0 |
| **Total** | **3 011** | **553** |
| 31-12-2007 | | |
| Loans and advances | 3 680 | 578 |
| Debt instruments | 0 | 0 |
| Derivatives | 18 | 0 |
| **Total** | **3 698** | **578** |

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

- Definitions:
  - Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of ‘past due’ applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
  - Fixed-income financial assets are impaired when impairment is indicated on an individual basis. The concept of ‘impairment’ is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of impaired.
- Information on ‘maximum credit exposure’ is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Maximum credit exposure | | |
| Equity instruments | 22 150 | 22 207 |
| Debt instruments | 89 809 | 82 816 |
| Loans and advances | 171 468 | 200 894 |
| of which designated at fair value through profit or loss | 31 368 | 23 611 |
| Derivatives | 17 697 | 22 232 |
| Other | 44 259 | 54 792 |
| **Total** | **345 382** | **382 941** |
| Carrying value of financial assets pledged by KBC as collateral | | |
| For liabilities | 25 644 | 41 084 |
| For contingent liabilities | 2 815 | 2 317 |

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

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

| | Fair value of collateral held | | Fair value of collateral sold or repledged | |
|---|---|---|---|---|
| | 31-12-2006 | 31-12-2007 | 31-12-2006 | 31-12-2007 |
| Financial assets | 42 452 | 45 648 | 12 202 | 18 608 |
| Equity instruments | 174 | 245 | 0 | 0 |
| Debt instruments | 42 121 | 45 025 | 12 202 | 18 608 |
| Loans and advances | 14 | 197 | 0 | 0 |
| Cash | 142 | 182 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Property and equipment | 0 | 0 | 0 | 0 |
| Investment property | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |

# Note 21: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

## FINANCIAL ASSETS

| In millions of EUR | Held for trading | Designated at fair value* | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Not more than one year | 21 151 | 17 674 | 6 647 | 61 355 | 1 233 | – | – | 108 060 |
| More than one but not more than five years | 3 260 | 11 508 | 18 310 | 17 411 | 6 336 | – | – | 56 824 |
| More than five years | 9 601 | 19 670 | 17 184 | 45 317 | 4 644 | – | – | 96 414 |
| Without maturity | 33 619 | 8 330 | 5 728 | 1 112 | 0 | 339 | – | 49 129 |
| **Total carrying value** | **67 630** | **57 182** | **47 868** | **125 195** | **12 213** | **339** | **–** | **310 427** |
| 31-12-2007 | | | | | | | | |
| Not more than one year | 23 794 | 23 108 | 5 781 | 65 882 | 2 191 | – | – | 120 756 |
| More than one but not more than five years | 3 538 | 6 870 | 18 526 | 24 661 | 5 358 | – | – | 58 954 |
| More than five years | 7 530 | 8 136 | 16 732 | 67 569 | 4 492 | – | – | 104 460 |
| Without maturity | 38 697 | 7 763 | 5 036 | 1 006 | 0 | 544 | – | 53 046 |
| **Total carrying value** | **73 559** | **45 878** | **46 075** | **159 119** | **12 041** | **544** | **–** | **337 215** |

* Designated at fair value through profit or loss.

## FINANCIAL LIABILITIES

| In millions of EUR | Held for trading | Designated at fair value* | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | |
| Not more than one year | 10 803 | 40 962 | – | – | – | – | 135 147 | 186 912 |
| More than one but not more than five years | 1 657 | 3 515 | – | – | – | – | 16 763 | 21 935 |
| More than five years | 847 | 4 063 | – | – | – | – | 6 009 | 10 918 |
| Without maturity | 24 116 | 8 180 | – | – | – | 96 | 30 125 | 62 517 |
| **Total carrying value** | **37 423** | **56 720** | **–** | **–** | **–** | **96** | **188 044** | **282 282** |
| 31-12-2007 | | | | | | | | |
| Not more than one year | 9 824 | 31 125 | – | – | – | – | 163 600 | 204 549 |
| More than one but not more than five years | 3 034 | 1 839 | – | – | – | – | 21 623 | 26 496 |
| More than five years | 1 935 | 4 655 | – | – | – | – | 9 709 | 16 299 |
| Without maturity | 26 199 | 7 743 | – | – | – | 155 | 27 894 | 61 991 |
| **Total carrying value** | **40 992** | **45 362** | **–** | **–** | **–** | **155** | **222 826** | **309 335** |

* Designated at fair value through profit or loss.

# Note 22: Impairment on financial assets that are available for sale

| | | 2006 | | 2007 |
|---|---|---|---|---|
| In millions of EUR | Fixed-income securities | Shares | Fixed-income securities | Shares |
| Opening balance | 22 | 101 | 14 | 65 |
| Movements with an impact on results | | | | |
| Impairment recognised | 3 | 13 | 9 | 66 |
| Impairment reversed | -9 | -1 | -1 | 0 |
| Movements without an impact on results | | | | |
| Write-offs | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | -8 |
| Other | -2 | -48 | 6 | 309 |
| **Closing balance** | **14** | **65** | **28** | **431** |

## Note 23: Impairment on financial assets held to maturity

### FIXED-INCOME SECURITIES

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

## Note 24: Impairment on loans and receivables (balance sheet)

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Total** | **2 224** | **2 233** |
| Breakdown by type | | |
| Specific impairment, on-balance-sheet lending | 1 934 | 1 963 |
| Specific impairment, off-balance-sheet credit commitments | 67 | 84 |
| Portfolio-based impairment | 222 | 186 |
| Breakdown by counterparty | | |
| Impairment on loans and advances to banks | 1 | 6 |
| Impairment on loans and advances to customers | 2 142 | 2 119 |
| Specific impairment, off-balance-sheet credit commitments | 80 | 108 |

| MOVEMENTS TABLE | Specific impairment, on-balance-sheet lending | Specific impairment, off-balance-sheet credit commitments | Portfolio-based impairment | Total |
|---|---|---|---|---|
| Opening balance 01-01-2006 | 2 471 | 61 | 290 | 2 822 |
| Movements with an impact on results | | | | |
| Loan loss expenses | 731 | 49 | 121 | 901 |
| Loan loss recoveries | -555 | -41 | -129 | -725 |
| Movements without an impact on results | | | | |
| Write-offs | -537 | 0 | -1 | -539 |
| Changes in the scope of consolidation | -11 | 0 | -46 | -57 |
| Other | -165 | -1 | -12 | -179 |
| **Closing balance 31-12-2006** | **1 934** | **67** | **222** | **2 224** |
| Opening balance 01-01-2007 | 1 934 | 67 | 222 | 2 224 |
| Movements with an impact on results | | | | |
| Loan loss expenses | 688 | 62 | 173 | 923 |
| Loan loss recoveries | -481 | -45 | -212 | -738 |
| Movements without an impact on results | | | | |
| Write-offs | -238 | -1 | 0 | -239 |
| Changes in the scope of consolidation | 59 | 0 | 0 | 59 |
| Other | 2 | 1 | 2 | 5 |
| **Closing balance 31-12-2007** | **1 963** | **84** | **186** | **2 233** |

# Note 25: Derivative financial instruments

| In millions of EUR | Held for trading – Carrying value – Assets | Held for trading – Carrying value – Liabilities | Held for trading – Notional amount – Assets | Held for trading – Notional amount – Liabilities | Micro hedging: fair value hedge – Carrying value – Assets | Micro hedging: fair value hedge – Carrying value – Liabilities | Micro hedging: fair value hedge – Notional amount – Assets | Micro hedging: fair value hedge – Notional amount – Liabilities | Micro hedging: cashflow hedge* – Carrying value – Assets | Micro hedging: cashflow hedge* – Carrying value – Liabilities | Micro hedging: cashflow hedge* – Notional amount – Assets | Micro hedging: cashflow hedge* – Notional amount – Liabilities | Portfolio hedge of interest rate risk – Carrying value – Assets | Portfolio hedge of interest rate risk – Carrying value – Liabilities | Portfolio hedge of interest rate risk – Notional amount – Assets | Portfolio hedge of interest rate risk – Notional amount – Liabilities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31-12-2006 | | | | | | | | | | | | | | | | |
| **Total** | **17 357** | **24 082** | **922 217** | **942 821** | **18** | **58** | **1 087** | **1 074** | **133** | **26** | **5 426** | **5 363** | **188** | **13** | **12 733** | **12 785** |
| Breakdown by type | | | | | | | | | | | | | | | | |
| Interest rate contracts | 5 823 | 9 013 | 577 673 | 585 636 | 6 | 37 | 778 | 771 | 65 | 23 | 4 083 | 4 132 | 188 | 13 | 12 733 | 12 785 |
| Interest rate swaps | 5 225 | 8 469 | 505 475 | 501 658 | 6 | 37 | 778 | 771 | 65 | 23 | 4 083 | 4 132 | 188 | 13 | 12 733 | 12 785 |
| Forward rate agreements | 20 | 23 | 21 791 | 20 104 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 31 | 0 | 11 377 | 20 159 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 482 | 311 | 38 214 | 41 628 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 65 | 210 | 815 | 2 086 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 1 307 | 1 387 | 185 709 | 186 140 | 12 | 21 | 300 | 303 | 68 | 3 | 1 343 | 1 231 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/ currency forwards | 580 | 604 | 108 000 | 108 516 | 0 | 0 | 0 | 0 | 1 | 0 | 14 | 14 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 544 | 551 | 53 666 | 53 552 | 12 | 21 | 300 | 303 | 62 | 3 | 1 166 | 1 075 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 183 | 232 | 24 043 | 24 072 | 0 | 0 | 0 | 0 | 6 | 1 | 163 | 143 | 0 | 0 | 0 | 0 |
| Equity contracts | 9 021 | 13 285 | 93 550 | 104 295 | 0 | 0 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 2 370 | 656 | 53 914 | 53 914 | 0 | 0 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 2 | 4 | 81 | 116 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 65 | 25 | 1 411 | 1 151 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 5 473 | 12 025 | 37 450 | 47 890 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 1 111 | 575 | 693 | 1 224 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 1 147 | 359 | 65 176 | 66 651 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 1 147 | 359 | 65 170 | 66 645 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit spread options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total return swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 6 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commodity and other contracts | 59 | 39 | 109 | 99 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* Including hedges of net investments in foreign operations.

| | Held for trading | | | | Micro hedging: fair value hedge | | | | Micro hedging: cashflow hedge* | | | | Portfolio hedge of interest rate risk | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | |
| In millions of EUR | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| 31-12-2007 | | | | | | | | | | | | | | | | |
| Total | 21 689 | 26 042 | 1 066 844 | 1 054 773 | 52 | 57 | 2 665 | 2 652 | 269 | 89 | 11 912 | 11 749 | 223 | 9 | 11 862 | 11 862 |
| Breakdown by type | | | | | | | | | | | | | | | | |
| Interest rate contracts | 5 453 | 7 461 | 654 616 | 649 666 | 36 | 43 | 2 421 | 2 421 | 197 | 81 | 10 451 | 10 451 | 223 | 9 | 11 862 | 11 862 |
| Interest rate swaps | 4 865 | 6 974 | 561 194 | 560 593 | 36 | 43 | 2 421 | 2 421 | 197 | 81 | 10 451 | 10 451 | 223 | 9 | 11 862 | 11 862 |
| Forward rate agreements | 49 | 43 | 33 957 | 29 042 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 26 | 3 | 9 845 | 9 750 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 513 | 433 | 47 064 | 49 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 0 | 9 | 2 555 | 382 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 1 385 | 1 464 | 215 552 | 217 139 | 15 | 14 | 235 | 222 | 73 | 8 | 1 461 | 1 299 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/ currency forwards | 508 | 599 | 123 758 | 125 294 | 0 | 0 | 7 | 0 | 0 | 0 | 20 | 20 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 620 | 612 | 63 913 | 64 187 | 15 | 14 | 229 | 222 | 66 | 8 | 1 276 | 1 134 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 14 | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 257 | 253 | 27 867 | 27 644 | 0 | 0 | 0 | 0 | 6 | 1 | 166 | 145 | 0 | 0 | 0 | 0 |
| Equity contracts | 9 559 | 13 937 | 64 126 | 61 529 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 1 899 | 282 | 32 179 | 32 177 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 8 | 1 | 10 | 184 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 22 | 32 | 1 146 | 386 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 7 396 | 13 028 | 29 924 | 28 324 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 234 | 594 | 867 | 457 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 5 060 | 3 165 | 132 287 | 126 148 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 5 060 | 3 165 | 132 287 | 126 148 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit spread options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total return swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commodity and other contracts | 232 | 15 | 263 | 292 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* Including hedges of net investments in foreign operations.

- Compared with the presentation in the previous annual report, a number of items have been reclassified. The main reclassification relates to the separation of credit derivatives from interest rate contracts.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: KBC uses this technique to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the so-called 'fair value' option): KBC uses this option to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs with embedded derivatives.
    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges. This type of hedge accounting is used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges. This technique is used to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- As regards choosing between one or other of the above hedge accounting techniques, generally one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, the decision was taken to make use of the possibilities specifically provided for under IAS 39, namely the 'fair value option and the portfolio hedge of interest rate risk' according to 'the carved-out version'.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- The estimated future cashflows from the cashflow hedging derivatives per time bucket, at year-end 2007, break down as follows (in millions of euro, positive figures indicate a cash inflow, negative figures a cash outflow):
  - Not more than three months: 65
  - More than three but not more than six months: -10
  - More than six but not more than twelve months: 12
  - More than one but not more than two years: -18
  - More than two but not more than five years: -23
  - More than five years: 110

## Note 26: Other assets

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Total** | **2 578** | **2 473** |
| Debtors arising out of primary insurance operations | 331 | 273 |
| Debtors arising out of reinsurance operations | 120 | 128 |
| Other debtors and called capital as yet unpaid | 0 | 0 |
| Deposits with ceding companies | 128 | 109 |
| Income receivable (other than interest income from financial assets) | 342 | 451 |
| Other | 1 657 | 1 512 |

## Note 27: Tax assets and tax liabilities

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| CURRENT TAXES | | |
| Current tax assets | 154 | 138 |
| Current tax liabilities | 534 | 481 |
| DEFERRED TAXES | 296 | 446 |
| Deferred tax assets by type of temporary difference | 1 389 | 1 783 |
| Employee benefits | 256 | 273 |
| Losses carried forward | 32 | 34 |
| Tangible and intangible fixed assets | 60 | 70 |
| Provisions for risks and charges | 41 | 47 |
| Impairment for losses on loans and advances | 219 | 222 |
| Financial instruments at fair value through profit or loss and fair value hedges | 316 | 431 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 275 | 496 |
| Technical provisions | 89 | 87 |
| Other | 100 | 120 |
| Unused tax losses and unused tax credits | 3 | 60 |
| Deferred tax liabilities by type of temporary difference | 1 093 | 1 337 |
| Employee benefits | 23 | 27 |
| Losses carried forward | 3 | 0 |
| Tangible and intangible fixed assets | 90 | 113 |
| Provisions for risks and charges | 12 | 43 |
| Impairment for losses on loans and advances | 111 | 105 |
| Financial instruments at fair value through profit or loss and fair value hedges | 228 | 357 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 450 | 443 |
| Technical provisions | 84 | 104 |
| Other | 91 | 142 |
| Recognised in the balance sheet as follows: | | |
| Deferred tax assets | 608 | 781 |
| Deferred tax liabilities | 312 | 335 |

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit.
- The total net increase in deferred taxes (150 million euros) breaks down as follows:
  - increase in deferred tax assets: 394 million euros;
  - increase in deferred tax liabilities: 244 million euros.
- The increase in deferred tax assets is accounted for primarily by:
  - the increase via the income statement: +159 million euros (chiefly employee benefits (+24 million euros), losses carried forward (+9 million euros), tangible and intangible fixed assets (+16 million euros) and financial instruments at fair value through profit or loss and fair value hedges (+111 million euros));
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities: +182 million euros;
  - the remaining increase (53 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.
- The increase in deferred tax liabilities is made up primarily of the following:
  - the increase via the income statement: +251 million euros (chiefly tangible and intangible fixed assets (+29 million euros), provisions for risks and charges (+23 million euros), impairment for losses on loans and advances (+27 million euros), financial instruments at fair value through profit or loss and fair value hedges (+122 million euros) and other (+42 million euros, mainly deferred tax liabilities on dividends receivable));
  - the decrease in deferred tax liabilities due to the drop in the market value of available-for-sale securities: -78 million euros;
  - the increase in positive fair value changes in cashflow hedges: +37 million euros;
  - the remaining increase (34 million euros) is mainly accounted for by changes in the scope of consolidation, translation differences and other items.

## Note 28: Investments in associated companies





| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Total** | **522** | **634** |
| Overview of investments, including goodwill | | |
| Nova Ljubljanska banka | 496 | 568 |
| Other | 27 | 66 |
| Goodwill on associated companies | | |
| Gross amount | 210 | 210 |
| Accumulated impairment | 0 | 0 |
| Breakdown by type | | |
| Unlisted | 522 | 634 |
| Listed | 0 | 0 |
| Fair value of investments in listed associated companies | 0 | 0 |
| MOVEMENTS TABLE | 2006 | 2007 |
| Opening balance (1 January) | 989 | 522 |
| Acquisitions | 0 | 69 |
| Carrying value, transfers | -280 | 0 |
| Share in the result for the period | 45 | 56 |
| Dividends paid | -13 | -15 |
| Share of gains and losses not recognised in the income statement | 0 | 2 |
| Translation differences | -5 | 0 |
| Changes in goodwill | -227 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 |
| Other movements | 13 | 0 |
| **Closing balance (31 December)** | **522** | **634** |

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies.
- For an overview of financial information on associated companies, see Note 40.
- Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).

## Note 29: Property and equipment and investment property

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Property and equipment | 1 906 | 2 234 |
| Investment property | 413 | 593 |
| Rental income | 39 | 54 |
| Direct operating expenses from investments generating rental income | 17 | 17 |
| Direct operating expenses from investments not generating rental income | 0 | 14 |

| MOVEMENTS TABLE | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment property |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Opening balance | 1 556 | 98 | 465 | 2 120 | 313 |
| Acquisitions | 64 | 66 | 345 | 475 | 56 |
| Disposals | -94 | -6 | -104 | -205 | -57 |
| Depreciation | -70 | -69 | -86 | -226 | -17 |
| Impairment | | | | | |
| Recognised | -5 | 0 | 0 | -5 | 0 |
| Reversed | 15 | 0 | 0 | 15 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | 14 | 1 | 7 | 22 | 0 |
| Changes in the scope of consolidation | -195 | -2 | -62 | -259 | 43 |
| Other movements | -41 | 34 | -25 | -32 | 75 |
| **Closing balance** | **1 242** | **123** | **541** | **1 906** | **413** |
| of which accumulated depreciation and impairment | 775 | 568 | 591 | 1 934 | 185 |
| of which expenditure on items in the course of construction | 0 | 0 | 131 | 131 | – |
| of which finance lease as a lessee | 0 | 0 | 22 | 22 | – |
| Fair value 31-12-2006 | – | – | – | – | 496 |
| **2007** | | | | | |
| Opening balance | 1 242 | 123 | 541 | 1 906 | 413 |
| Acquisitions | 170 | 98 | 166 | 435 | 34 |
| Disposals | -37 | -18 | -90 | -145 | -4 |
| Depreciation | -67 | -73 | -83 | -223 | -24 |
| Impairment | | | | | |
| Recognised | 0 | 0 | 0 | 0 | -1 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 59 |
| Translation differences | 12 | 1 | 5 | 17 | 5 |
| Changes in the scope of consolidation | 93 | 6 | 11 | 110 | 72 |
| Other movements | 199 | 18 | -83 | 133 | 37 |
| **Closing balance** | **1 612** | **154** | **468** | **2 234** | **593** |
| of which accumulated depreciation and impairment | 913 | 627 | 217 | 1 756 | 140 |
| of which expenditure on items in the course of construction | 25 | 0 | 18 | 42 | – |
| of which finance lease as a lessee | 4 | 0 | 0 | 4 | – |
| Fair value 31-12-2007 | – | – | – | – | 690 |

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Investment property is valued by an independent expert, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).

# Note 30: Goodwill and other intangible assets

| In millions of EUR | Goodwill | Software developed inhouse | Software developed externally | Other | Total |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Opening balance | 1 260 | 65 | 189 | 23 | 1 537 |
| Acquisitions | 384 | 78 | 56 | 28 | 544 |
| Disposals | -16 | -26 | -1 | -8 | -51 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -31 | -80 | -6 | -117 |
| Impairment | | | | | |
| Recognised | -1 | 0 | -1 | 0 | -2 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | 25 | -1 | 1 | 1 | 26 |
| Changes in the scope of consolidation | 0 | 0 | -1 | 3 | 2 |
| Other movements | 40 | 9 | 3 | -3 | 48 |
| **Closing balance** | **1 692** | **93** | **165** | **38** | **1 988** |
| of which accumulated amortisation and impairment | 14 | 100 | 558 | 129 | 800 |
| **2007** | | | | | |
| Opening balance | 1 692 | 93 | 165 | 38 | 1 988 |
| Acquisitions | 1 350 | 45 | 91 | 36 | 1 522 |
| Disposals | -8 | 0 | -10 | -1 | -19 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -29 | -74 | -11 | -114 |
| Impairment | | | | | |
| Recognised | 0 | -2 | 0 | -2 | -4 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -9 | -1 | 1 | -1 | -9 |
| Changes in the scope of consolidation | 0 | 0 | 1 | 54 | 55 |
| Other movements | 69 | -4 | -4 | 20 | 82 |
| **Closing balance** | **3 094** | **103** | **171** | **133** | **3 501** |
| of which accumulated amortisation and impairment | 12 | 120 | 520 | 195 | 847 |

- The 'goodwill' column includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cash flows of the business. This method is based on long-term projections about the company's business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- At the end of 2007, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) KBL EPB (932 million euros), Absolut Bank (516 million euros), ČSOB (274 million euros), K&H Bank (271 million euros), EIB Bank (221 million euros) and DZI Insurance (212 million euros), and WARTA (165 million euros) and Kredyt Bank (95 million euros). At the end of 2006, goodwill had been accounted for primarily by KBL EPB (934 million euros), WARTA (160 million euros), ČSOB (144 million euros), Kredyt Bank (101 million euros) and K&H Bank (273 million euros).

## Note 31: Technical provisions, insurance

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Gross technical provisions | 15 965 | 17 905 |
| Insurance contracts | 8 828 | 9 474 |
| Provisions for unearned premiums and unexpired risk | 453 | 509 |
| Life insurance provision | 4 680 | 4 968 |
| Provision for claims outstanding | 3 312 | 3 557 |
| Provision for bonuses and rebates | 25 | 29 |
| Other technical provisions | 358 | 411 |
| Investment contracts with DPF | 7 138 | 8 431 |
| Life insurance provision | 7 093 | 8 367 |
| Provision for claims outstanding | 0 | 0 |
| Provision for bonuses and rebates | 45 | 64 |
| Reinsurers' share | 290 | 291 |
| Insurance contracts | 290 | 291 |
| Provisions for unearned premiums and unexpired risk | 24 | 21 |
| Life insurance provision | 8 | 3 |
| Provision for claims outstanding | 257 | 266 |
| Provision for bonuses and rebates | 0 | 0 |
| Other technical provisions | 0 | 0 |
| Investment contracts with DPF | 0 | 0 |
| Life insurance provision | 0 | 0 |
| Provision for claims outstanding | 0 | 0 |
| Provision for bonuses and rebates | 0 | 0 |

| | | 2006 | | 2007 |
|---|---|---|---|---|
| MOVEMENTS TABLE | Gross | Reinsurance | Gross | Reinsurance |
| INSURANCE CONTRACTS, LIFE | | | | |
| Opening balance | 4 522 | 15 | 5 018 | 16 |
| Net payments received/premiums receivable | 579 | 1 | 660 | -2 |
| Gross payments made | -317 | 0 | -383 | 0 |
| (Theoretical) risk premiums | -73 | 0 | -99 | -1 |
| Accretion of interest | 140 | 0 | 177 | 0 |
| Profit share allocated | 26 | 0 | 40 | 0 |
| Purchase/sale of portfolio | 187 | 0 | 0 | 0 |
| Exchange differences | 0 | 0 | 0 | 0 |
| Other movements | -46 | 0 | -45 | 1 |
| **Closing balance** | **5 018** | **16** | **5 367** | **14** |
| INSURANCE CONTRACTS, NON-LIFE | | | | |
| Opening balance | 3 575 | 267 | 3 810 | 274 |
| Payments regarding claims of previous years | -323 | -27 | -397 | -24 |
| Surplus/shortfall of claims provision in previous years | -129 | 15 | -165 | 10 |
| New claims | 551 | 20 | 632 | 26 |
| Purchase/sale of portfolio | 3 | 0 | 12 | 0 |
| Transfers | 0 | 0 | 0 | 0 |
| Exchange differences | -1 | 0 | -4 | 0 |
| Other movements | 134 | 0 | 218 | -10 |
| **Closing balance** | **3 810** | **274** | **4 106** | **277** |
| INVESTMENT CONTRACTS WITH DPF, LIFE | | | | |
| Opening balance | 6 683 | 0 | 7 138 | 0 |
| Net payments received/premiums receivable | 769 | 0 | 1 272 | 0 |
| Gross payments made | -602 | 0 | -331 | 0 |
| Theoretical risk premiums | -43 | 0 | -47 | 0 |
| Accretion of interest | 312 | 0 | 398 | 0 |
| Profit share allocated | 65 | 0 | 95 | 0 |
| Purchase/sale of portfolio | 0 | 0 | 0 | 0 |
| Exchange differences | 0 | 0 | 0 | 0 |
| Other movements | -46 | 0 | -93 | 0 |
| **Closing balance** | **7 138** | **0** | **8 431** | **0** |

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are valued according to IAS 39 (deposit accounting). These liabilities concern mainly the unit-linked contracts, which are included in financial liabilities (see Note 18, liabilities under investment contracts).

## Note 32: Provisions for risks and charges





| In millions of EUR | Provision for restructuring | Provision for taxes and pending legal disputes | Other | Subtotal | Impairment, off-balance-sheet credit commit-ments | Total |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| Opening balance | 44 | 260 | 143 | 446 | 75 | 522 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 9 | 24 | 13 | 46 | 67 | 113 |
| Amounts used | 0 | -19 | -8 | -28 | 0 | -28 |
| Unused amounts reversed | -4 | -48 | 0 | -53 | -56 | -109 |
| Other movements | -20 | 26 | -4 | 1 | -6 | -4 |
| **Closing balance** | **28** | **241** | **143** | **413** | **80** | **493** |
| **2007** | | | | | | |
| Opening balance | 28 | 241 | 143 | 413 | 80 | 493 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 4 | 66 | 18 | 88 | 80 | 168 |
| Amounts used | -2 | -18 | -65 | -85 | 0 | -85 |
| Unused amounts reversed | -1 | -24 | -9 | -34 | -54 | -88 |
| Other movements | -11 | 6 | -28 | -34 | 3 | -31 |
| **Closing balance** | **18** | **270** | **60** | **348** | **108** | **456** |

- Restructuring provisions were set aside mainly for restructuring in a number of companies in the KBL EPB group (10 million euros at year-end 2007) and, to a lesser extent, in a number of Central and Eastern European subsidiaries of KBC Bank (an aggregate 7 million euros).
- The provisions for legal disputes are discussed below.
- 'Other provisions' include those set aside for miscellaneous risks and future expenditure.
- Specific impairment for off-balance-sheet credit commitments include impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. Claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable')).
  Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
  No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
  All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has also provided information on the current status of the most important cases in this category.
  The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow:
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. A criminal investigation is currently being carried out. A number of claims have already been settled either amicably or following an arbitral decision. On balance, 51 million euros' worth of provisions have been set aside for the claims still outstanding.
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in nineteen cases. In addition, KB Consult has been placed under suspicion by an investigating magistrate. A provision of 40 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
- Possible outflow:
  - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.
- Remotely probable outflow:
  - On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings conducted by the examining judiciary have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

## Note 33: Other liabilities

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Total** | **5 624** | **6 511** |
| Breakdown by type | | |
| Retirement benefit plans or other employee benefits | 1 796 | 1 775 |
| Deposits from reinsurers | 92 | 93 |
| Accrued charges (other than from interest expenses on financial liabilities) | 930 | 2 037 |
| Other | 2 807 | 2 605 |

- For more information on retirement benefit plans or other employee benefits, see Note 34.

## Note 34: Retirement benefit obligations

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| DEFINED BENEFIT PLANS | | |
| Reconciliation of defined benefit obligations | | |
| Defined benefit obligations at the beginning of the period | 1 922 | 1 717 |
| Current service cost | 107 | 98 |
| Interest cost | 71 | 83 |
| Plan amendments | 5 | 15 |
| Actuarial gain (loss) | -119 | -91 |
| Benefits paid | -86 | -102 |
| Exchange differences | 1 | -6 |
| Curtailments | 0 | 0 |
| Changes in the scope of consolidation | -178 | 0 |
| Other | -6 | 71 |
| Defined benefit obligations at the end of the period | 1 717 | 1 786 |
| Reconciliation of the fair value of plan assets | | |
| Fair value of plan assets at the beginning of the period | 1 478 | 1 497 |
| Actual return on plan assets | 110 | 4 |
| Employer contributions | 96 | 89 |
| Plan participant contributions | 16 | 17 |
| Benefits paid | -86 | -102 |
| Exchange differences | 1 | -5 |
| Settlements | 0 | 0 |
| Changes in the scope of consolidation | -113 | 0 |
| Other | -5 | 20 |
| Fair value of plan assets at the end of the period | 1 497 | 1 520 |
| of which financial instruments issued by the group | 42 | 42 |
| Funded status | | |
| Plan assets in excess of defined benefit obligations | -220 | -266 |
| Unrecognised net actuarial gains | -263 | -242 |
| Unrecognised transaction amount | 12 | 0 |
| Unrecognised past service cost | 0 | 0 |
| Unrecognised assets | -3 | -1 |
| Unfunded accrued/prepaid pension cost | -474 | -508 |
| Movement in net liabilities or net assets | | |
| Unfunded accrued/prepaid pension cost at the beginning of the period | -604 | -474 |
| Net periodic pension cost | -46 | -131 |
| Employer contributions | 96 | 89 |
| Exchange differences | 12 | 7 |
| Changes in the scope of consolidation | 68 | 0 |
| Other | 0 | 1 |
| Unfunded accrued/prepaid pension cost at the end of the period | -474 | -508 |
| Amounts recognised in the balance sheet | | |
| Prepaid pension cost | 65 | 66 |
| Accrued pension liabilities | -539 | -575 |
| Unfunded accrued/prepaid pension cost | -474 | -508 |

## Note 34: Retirement benefit obligations (continued)

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Amounts recognised in the income statement** | | |
| Current service cost | 107 | 98 |
| Interest cost | 71 | 83 |
| Expected return on plan assets | -69 | -84 |
| Adjustments to limit prepaid pension cost | -54 | 2 |
| Amortisation of unrecognised prior service costs | 5 | 80 |
| Amortisation of unrecognised net gains/unrecognised net losses | 1 | -31 |
| Employee contributions | -14 | -17 |
| Curtailments | 0 | 0 |
| Settlements | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 |
| Actuarially determined net periodic pension cost* | 46 | 131 |
| **Actual return on plan assets** | 7.5% | 0.3% |
| **Principal actuarial assumptions used (based on weighted averages)** | | |
| Discount rate | 4.0% | 4.6% |
| Expected rate of return on plan assets | 5.1% | 5.2% |
| Expected rate of salary increase | 3.5% | 3.3% |
| Rate of pension increase | 0.7% | 0.5% |
| DEFINED CONTRIBUTION PLANS | | |
| Expenses for defined contribution plans | 18 | 7 |

* Included under staff expenses (see 'Note 12: Operating expenses').

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). The assets of these first two plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- Past figures for the main items shown in the table (figures for year-end 2003, 2004, 2005, 2006 and 2007, in millions of euros):
  - Defined benefit obligations: 1 545, 1 694, 1 922, 1 717, 1 786;
  - Fair value of plan assets: 1 104, 1 267, 1 478, 1 497, 1 520;
  - Unfunded accrued or prepaid pension cost: -426, -523, -604, -474, -508.
- The actual return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2007, the assets of the group's biggest pension plans were as follows:
  - KBC pension fund: 51% shares, 39% bonds, 8% real estate and 2% cash (in 2006: 53%, 36%, 10% and 1%, respectively);
  - KBC Insurance group insurance scheme (including Fidea): 20% shares, 77% bonds, and 3% real estate (in 2006: 21%, 75% and 4%, respectively);
  - KBL EPB pension plan: 17% shares, 62% bonds, and 21% cash (in 2006: 22%, 78% and 0%, respectively).
- The following contributions are expected to be made to these plans in 2008:
  - KBC pension fund: 49 million euros;
  - KBC Insurance group insurance scheme (including Fidea): 4 million euros;
  - KBL EPB pension plan: 10 million euros.
- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact, this relates to the three pension schemes mentioned in the preceding paragraph, combined): +1 million euros in 2004, +2 million euros in 2005, +1 million euros in 2006, and -1 million euros in 2007. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros, and -7 million euros, respectively.

## Note 35: Parent shareholders' equity

| In number of shares | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Total number of shares issued and fully paid up** | **365 823 520** | **357 704 668** |
| Breakdown by type | | |
| Ordinary shares | 363 217 068 | 355 115 321 |
| Other equity instruments | 2 606 452 | 2 589 347 |
| of which ordinary shares that entitle the holder to a dividend payment | 352 870 300 | 342 568 138 |
| of which treasury shares | 15 823 991 | 15 441 530 |
| Other information | | |
| Par value per share (in EUR) | 3.40 | 3.48 |
| Number of shares issued but not fully paid up | 0 | 0 |

| MOVEMENTS TABLE<br>In number of shares | Ordinary shares | Other equity instruments | Total |
|---|---|---|---|
| 2006 | | | |
| Opening balance | 366 566 637 | 2 639 838 | 369 206 475 |
| Issue of shares | 117 045 | 0 | 117 045 |
| Conversion of mandatorily convertible bonds into shares | 33 386 | -33 386 | 0 |
| Other movements | -3 500 000 | 0 | -3 500 000 |
| **Closing balance** | **363 217 068** | **2 606 452** | **365 823 520** |
| 2007 | | | |
| Opening balance | 363 217 068 | 2 606 452 | 365 823 520 |
| Issue of shares | 110 871 | 0 | 110 871 |
| Conversion of mandatorily convertible bonds into shares | 17 105 | -17 105 | 0 |
| Other movements | -8 229 723 | 0 | -8 229 723 |
| **Closing balance** | **355 115 321** | **2 589 347** | **357 704 668** |

- The share capital of KBC Group NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table). All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange.
- At year-end, the KBC group companies held 15 441 530 KBC shares (15 398 652, excluding the shares held in the trading book of KBC Securities, Ligeva and KBC Financial Products). This figure includes:
  - the shares needed for the employee stock option plans (1 037 895 shares on 31 December 2007);
  - the shares repurchased under the 3-billion-euro share buyback programme announced at the end of 2006 and that will run between 2007 and 2009. In 2007, this programme saw a total of 10 436 312 shares (2.9% of the total number of shares on 1 January 2007) being bought back in the open market at an average price of 95.81 euros.
- At 31 December 2007, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 12.
- More information on the following items is available in the 'Company annual accounts' section.
  - the 1998–2008 MCBs;
  - the calculation of the number of shares entitled to dividend;
  - the authorisation to increase capital.

## Note 36: Commitments and contingent liabilities

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Credit commitments – undrawn amount** | | |
| Given | 40 427 | 42 256 |
| Irrevocable | 31 316 | 35 478 |
| Revocable | 9 111 | 6 779 |
| Received | 2 342 | 3 456 |
| **Financial guarantees** | | |
| Given | 16 213 | 18 125 |
| Guarantees received/collateral | 164 385 | 204 843 |
| For impaired and past due assets | 3 184 | 4 619 |
| Non-financial assets | 3 039 | 4 306 |
| Financial assets | 144 | 313 |
| For assets that are not impaired or past due | 161 201 | 200 224 |
| Non-financial assets | 112 977 | 135 453 |
| Financial assets | 48 224 | 64 770 |
| **Other commitments** | | |
| Given | 87 | 134 |
| Irrevocable | 71 | 92 |
| Revocable | 16 | 42 |
| Received | 0 | 69 |

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Bank irrevocably guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2007 listed in Section 5c of the Irish Companies Amendment Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies Amendment Act 1986.
  - KBC Asset Management International Limited
  - KBC Asset Management Limited
  - KBC Financial Services (Ireland) Limited
  - KBC Fund Managers Limited

## Note 37: Leasing

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| **Finance lease receivables** | | |
| Gross investment in finance leases, receivable | 6 772 | 7 873 |
| At not more than one year | 2 097 | 2 385 |
| At more than one but not more than five years | 2 893 | 4 087 |
| At more than five years | 1 782 | 1 401 |
| Unearned future finance income on finance leases | 690 | 988 |
| Net investment in finance leases | 6 082 | 6 883 |
| At not more than one year | 1 945 | 2 101 |
| At more than one but not more than five years | 2 590 | 3 726 |
| At more than five years | 1 547 | 1 055 |
| of which unguaranteed residual values accruing to the benefit of the lessor | 10 | 9 |
| Accumulated impairment for uncollectable lease payments receivable | 60 | 35 |
| Contingent rents recognised in income | 15 | 17 |
| **Operating lease receivables** | | |
| Future aggregate minimum rentals receivable under non-cancellable leases | 50 | 91 |
| At not more than one year | 13 | 26 |
| At more than one but not more than five years | 29 | 55 |
| At more than five years | 8 | 9 |
| Contingent rents recognised in income | 0 | 0 |

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

# Note 38: Related-party transactions

| In millions of EUR | 2006 | 2007 |
|---|---|---|
| TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS | | |
| **Assets** | **575** | **1 698** |
| Loans and advances | 551 | 738 |
| Current account advances | 44 | 0 |
| Term loans | 507 | 738 |
| Finance leases | 0 | 0 |
| Consumer credit | 0 | 0 |
| Mortgage loans | 0 | 0 |
| Equity instruments | 24 | 246 |
| Trading securities | 11 | 6 |
| Investment securities | 13 | 240 |
| Other receivables | 0 | 713 |
| **Liabilities** | **51** | **557** |
| Deposits | 51 | 541 |
| Deposits | 51 | 536 |
| Other borrowings | 0 | 5 |
| Other financial liabilities | 0 | 2 |
| Debt certificates | 0 | 2 |
| Subordinated liabilities | 0 | 0 |
| Share-based payments | 0 | 0 |
| Granted | 0 | 0 |
| Exercised | 0 | 0 |
| Other liabilities | 0 | 15 |
| **Income statement** | **-24** | **15** |
| Net interest income | -32 | 8 |
| Gross earned premiums | 0 | 0 |
| Dividend income | 5 | 6 |
| Net fee and commission income | 0 | -8 |
| Other net income | 4 | 9 |
| **Guarantees** | | |
| Guarantees issued by the group | 0 | 0 |
| Guarantees received by the group | 0 | 0 |
| TRANSACTIONS WITH DIRECTORS | | |
| Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis | 12 | 12 |
| **Breakdown per director** | | |
| Members of the Group Executive Committee | 5 | 5 |
| Other members | 7 | 7 |
| **Breakdown by type of remuneration** | | |
| Short-term employee benefits | 11 | 10 |
| Post-employment benefits | 1 | 3 |
| Defined benefit plans | 1 | 3 |
| Defined contribution plans | 0 | 0 |
| Other long-term employee benefits | 0 | 0 |
| Termination benefits | 0 | 0 |
| Share-based payments | 0 | 0 |
| **Share options, in units** | | |
| At the beginning of the period | 56 900 | 67 800 |
| Granted | 27 600 | 4 600 |
| Exercised | -7 800 | -9 700 |
| Changes in directors | -8 900 | 0 |
| At the end of the period | 67 800 | 62 700 |
| Advances and loans granted to directors and partners | 3 | 4 |

- After the elimination of transactions with consolidated subsidiaries, the transactions that remain are primarily with associated companies, including NLB (around 0.9 billion euros in receivables and around 4 million euros in debt), transactions with non-consolidated special purpose vehicles and transactions with KBC Ancora, Cera CVBA, MRBB, the pension funds and the directors of the group.
- All related-party transactions occur 'at arm's length'.
- There were no material transactions with associated companies other than shown in the table.

## Note 39: Auditor's remuneration

In 2007, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren fees amounting to a total of 12 068 981 euros for standard audit services. Remuneration paid for non-audit services came to 3 465 383 euros, viz:

- other certifications: 824 150 euros;
- tax advice: 591 211 euros;
- other non-audit assignments: 2 050 022 euros.

## Note 40: List of significant subsidiaries and associated companies

| Company | Registered office | Ownership percentage at group level | Business Unit | Activity |
|---|---|---|---|---|
| KBC BANK | | | | |
| Fully consolidated subsidiaries | | | | |
| Absolut Bank | Moscow – RU | 95.00 | CEER | Credit institution |
| Antwerp Diamond Bank NV | Antwerp – BE | 100.00 | Merchant Banking | Credit institution |
| CBC Banque SA | Brussels – BE | 100.00 | Belgium | Credit institution |
| Centea NV | Antwerp – BE | 99.56 | Belgium | Credit institution |
| ČSOB a.s. | Prague – CZ | 100.00 | CEER | Credit institution |
| Economic and Investment Bank AD | Sofia – BG | 75.58 | CEER | Credit institution |
| Fin-Force NV | Brussels – BE | 90.00 | Group Centre | Processing financial transactions |
| IIB Bank Plc. | Dublin – IE | 100.00 | Merchant Banking | Credit institution |
| KBC Asset Management NV | Brussels – BE | 100.00 | Belgium | Asset Management |
| KBC Bank NV | Brussels – BE | 100.00 | Belgium and Merchant Banking | Credit institution |
| KBC Bank Deutschland AG | Bremen – DE | 99.76 | Merchant Banking | Credit institution |
| KBC Bank Funding LLC & Trust (group) | New York – US | 100.00 | Merchant Banking | Issuance of trust preferred securities |
| KBC Bank Nederland NV | Rotterdam – NL | 100.00 | Merchant Banking | Credit institution |
| KBC Clearing NV | Amsterdam – NL | 100.00 | Merchant Banking | Clearing |
| KBC Commercial Finance (formerly International Factors NV) | Brussels - BE | 100.00 | Merchant Banking | Factoring |
| KBC Credit Investments NV | Brussels – BE | 100.00 | Merchant Banking | Investment in credit-related securities |
| KBC Finance Ireland | Dublin – IE | 100.00 | Merchant Banking | Lending |
| KBC Financial Products (group) | Various locations | 100.00 | Merchant Banking | Equities and derivatives trading |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | 100.00 | Merchant Banking | Issuance of bonds |
| KBC Lease (group) | Various locations | 100.00 | Merchant Banking | Leasing |
| KBC Peel Hunt Limited | London – GB | 99.99 | Merchant Banking | Stock exchange broker, corporate finance |
| KBC Private Equity NV | Brussels – BE | 100.00 | Merchant Banking | Private equity |
| KBC Real Estate NV | Zaventem – BE | 100.00 | Merchant Banking | Real estate |
| KBC Securities NV | Brussels – BE | 100.00 | Merchant Banking | Stock exchange broker, corporate finance |
| K&H Bank Rt. | Budapest – HU | 100.00 | CEER | Credit institution |
| Kredyt Bank SA | Warsaw – PL | 80.00 | CEER | Credit institution |
| Associated companies | | | | |
| Nova Ljubljanska banka d.d. | Ljubljana – SI | 34.00 | CEER | Credit institution |
| KBC INSURANCE | | | | |
| Fully consolidated subsidiaries | | | | |
| A Banka A.D. | Belgrade – RS | 100.00 | CEER | Credit institution |
| ADD NV | Heverlee – BE | 100.00 | Belgium | Insurance company |
| Assurisk SA | Luxembourg – LU | 100.00 | Merchant Banking | Insurance company |
| ČSOB Pojišt'ovna (Czech Republic) | Pardubice – CZ | 100.00 | CEER | Insurance company |
| ČSOB Poist'ovňa a.s. (Slovak Republic) | Bratislava – SK | 100.00 | CEER | Insurance company |
| DZI Insurance | Sofia – BG | 89.37 | CEER | Insurance company |
| Fidea NV | Antwerp – BE | 100.00 | Belgium | Insurance company |
| K&H Insurance Rt. | Budapest – HU | 100.00 | CEER | Insurance company |
| KBC Insurance NV | Leuven – BE | 100.00 | Belgium | Insurance company |
| Secura NV | Brussels – BE | 95.04 | Merchant Banking | Insurance company |
| VITIS Life Luxembourg SA | Luxembourg – LU | 99.99 | European Private Banking | Insurance company |
| VTB-VAB NV | Zwijndrecht – BE | 64.80 | Belgium | Automobile assistance |
| TUiR WARTA SA | Warsaw – PL | 100.00 | CEER | Insurance company |
| Proportionately consolidated subsidiaries | | | | |
| NLB Vita d.d. | Ljubljana – SI | 50.00 | CEER | Insurance company |

## Note 40: List of significant subsidiaries and associated companies (continued)

| Company | Registered office | Ownership percentage at group level | Business Unit | Activity |
|---|---|---|---|---|
| KBL EPB | | | | |
| Fully consolidated subsidiaries | | | | |
| Brown, Shipley & Co. Limited | London – GB | 99.91 | European Private Banking | Credit institution |
| KBL France SA | Paris – FR | 99.91 | European Private Banking | Credit institution |
| Kredietbank SA Luxembourgeoise | Luxembourg – LU | 99.91 | European Private Banking | Credit institution |
| Kredietbank (Suisse) SA | Geneva – CH | 99.90 | European Private Banking | Credit institution |
| Merck Finck & Co. | Munich – DE | 99.91 | European Private Banking | Credit institution |
| Puilaetco Dewaay Private Bankers SA | Brussels – BE | 99.91 | European Private Banking | Credit institution |
| Theodoor Gilissen Bankiers NV | Amsterdam – NL | 99.91 | European Private Banking | Credit institution |
| KBC GROUP NV (other direct subsidiaries) | | | | |
| Fully consolidated subsidiaries | | | | |
| KBC Global Services NV (formerly KBC Exploitatie NV) | Brussels – BE | 100.00 | Group Centre | Cost-sharing structure |
| KBC Group NV | Brussels – BE | 100.00 | Group Centre | Holding company |

- For a complete list of the companies included in or excluded from the scope of consolidation, as well as all associated companies, see the appendix (after note 43).
- The companies accounted for using the equity method (see table) have combined total assets, equity and a net result of 14.4 billion euros, 0.8 billion euros and 105 million euros, respectively.

## Note 41: Main changes in the scope of consolidation

| Parent company | Company | Consolidation method | Ownership percentage at group level 2006 | 2007 | Comments |
|---|---|---|---|---|---|
| Additions | | | | | |
| KBC Bank | Absolut Bank | Full | – | 95.00% | Recognised in income statement from 3Q 2007 |
| KBC Bank | Economic and Investment Bank AD | Full | – | 75.58% | Recognised in income statement from 1Q 2008 |
| KBC Insurance | A Banka AD | Full | – | 100.00% | Recognised in income statement from 1Q 2007 |
| KBC Insurance | DZI Insurance | Full | – | 89.37% | Recognised in income statement from 4Q 2007 |
| Exclusions | | | | | |
| KBC Bank | Banksys and BCC | Equity | – | – | Sold in 4Q 2006 |
| KBL EPB | Banco Urquijo SA | Full | – | – | Sold in 3Q 2006 |
| KBL EPB | Banca KBL Fumagalli Soldan | Full | 99.88% | – | Sold in 2Q 2007 |
| Changes in ownership percentage | | | | | |
| KBC Bank | KBC Commercial Finance (formerly International Factors NV) | Full | 50.00% | 100.00% | Acquisition of remaining 50% stake in 2Q 2007 |
| KBC Bank | ČSOB a.s. | Full | 97.44% | 100.00% | Buy-out of minority shareholders in 2Q 2007 |

## Note 42: Post-balance-sheet events

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

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

- The signing by KBL EPB in January 2008 of a protocol agreement on the full acquisition of Richelieu Finance, a French asset management company which manages roughly 4 billion euros' worth of assets (at year-end 2007) and will complement KBL EPB's existing presence in France perfectly. The signing of the final agreement is still subject to due diligence and regulatory approval.
- The reaching of a compromise settlement by the group with a number of insurance companies regarding a legal dispute. No additional information can be provided on this matter, as it might prejudice the group's position.

## Note 43: General information (IAS 1)

| | |
|---|---|
| Name | KBC Group NV |
| Incorporated | 9 February 1935 as Kredietbank NV; the present name dates from 2 March 2005. |
| Country of incorporation | Belgium |
| Registered office | 2 Havenlaan, 1080 Brussels, Belgium |
| VAT | BE 0403.227.515 |
| RLP | Brussels |
| Legal form | *Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company registered with the Belgian Banking, Finance and Insurance Commission. |
| Life | Indefinite |
| Object | The company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions.<br>The company also has as object to provide support services to third parties, as mandatary or otherwise, in particular to companies in which the company has an interest – either directly or indirectly (Article 2 of the Articles of Association). |
| Documents open to public inspection | The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The annual accounts have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have applied for a copy. |
| General Meeting of Shareholders | A General Meeting is held every year at the company's registered office or at any other place designated in the convening notice, at 11 a.m. on the last Thursday of April, or, if this day is a public holiday, at 4 p.m. on the business day immediately before it.<br>In order to be admitted to the General Meeting, the holders of bearer shares, bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice.<br>The owners of registered shares, bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting.<br>Holders of book-entry shares, bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the shares, bonds, warrants or certificates until the date of the General Meeting.<br>Holders of bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.<br>In derogation from what has been set out above, the Board of Directors may decide that the holders of shares, bonds, warrants or certificates issued in co-operation with the company, in order to gain access to the General Meeting, have to prove that they hold these securities at midnight on the registration date, regardless of the number of shares they hold on the day of the general meeting. This registration date may not be earlier than fifteen days and not later than five business days prior to the general meeting. In a register designated by the Board of Directors, the number of securities held by each holder of securities at midnight on the registration date will be entered. The registration date will be specified in the convening notice for the General Meeting, along with the way in which the holders of securities can register. |

## Appendix: complete list of companies included in or excluded from the scope of consolidation and the associated companies

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| KBC Bank: subsidiaries that are fully consolidated | | | |
| KBC Bank NV | Brussels – BE | 0462.920.226 | 100.00 |
| AKB "Absolut Bank" (ZAO) | Moscow – RU | – | 95.00 |
| Absolut Capital (Luxembourg) SA | Luxembourg – LU | – | 95.00 |
| Absolut Capital Trust Limited | Limassol – CY | – | 95.00 |
| Absolut Finance SA | Luxembourg – LU | – | 95.00 |
| Antwerp Diamond Bank NV | Antwerp – BE | 0404.465.551 | 100.00 |
| Banque Diamantaire (Suisse) SA | Geneva – CH | – | 100.00 |
| CBC Banque SA | Brussels – BE | 0403.211.380 | 100.00 |
| Centea NV | Antwerp – BE | 0404.477.528 | 99.56 |
| Československa Obchodni Banka a.s. (ČSOB) | Prague – CZ | – | 100.00 |
| Auxilium a.s. | Prague – CZ | – | 100.00 |
| Bankovni Informacni Technologie s.r.o. | Prague – CZ | – | 100.00 |
| Business Center s.r.o. | Bratislava – SK | – | 100.00 |
| Centrum Radlická a.s. | Prague – CZ | – | 100.00 |
| ČSOB Asset Management a.s. | Prague – CZ | – | 100.00 |
| ČSOB Property Fund a.s. | Prague – CZ | – | 100.00 |
| Merrion Properties | Prague – CZ | – | 100.00 |
| ČSOB Asset Management a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Distribution a.s. | Prague – CZ | – | 100.00 |
| ČSOB d.s.s. a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Factoring a.s. | Prague – CZ | – | 100.00 |
| ČSOB Factoring a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Investiční Spolecnost | Prague – CZ | – | 90.81 |
| ČSOB Investment Banking Service a.s. | Prague – CZ | – | 100.00 |
| ČSOB Korporatni OPF ČSOB Investiční Spolecnosti a.s. | Prague – CZ | – | 100.00 |
| ČSOB Leasing a.s. | Prague – CZ | – | 100.00 |
| ČSOB Leasing Pojist'ovaci Maklér s.r.o. | Prague – CZ | – | 100.00 |
| ČSOB Leasing a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Leasing Poist'ovaci Maklér s.r.o. | Bratislava – SK | – | 100.00 |
| ČSOB Penzijní fond Progres a.s. | Prague – CZ | – | 100.00 |
| ČSOB Penzijní fond Stabilita a.s. | Prague – CZ | – | 100.00 |
| ČSOB Stavebni Sporitelna a.s. | Bratislava – SK | – | 100.00 |
| Hypotecni Banka a.s. | Prague – CZ | – | 99.87 |
| Zemsky Penzijni fond a.s. | Prague – CZ | – | 100.00 |
| Economic and Investment Bank AD | Sofia – BG | – | 75.58 |
| Fin-Force NV | Brussels – BE | 0472.725.639 | 90.00 |
| IIB Bank Public Limited Company | Dublin – IE | – | 100.00 |
| Bencrest Properties Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 1) Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 2) Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 3) Limited | Dublin – IE | – | 100.00 |
| Danube Holdings Limited | Dublin – IE | – | 100.00 |
| Dunroamin Properties Limited | Dublin – IE | – | 100.00 |
| Glare Nominee Limited | Dublin – IE | – | 100.00 |
| Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| IIB Capital Plc. | Dublin – IE | – | 100.00 |
| IIB Finance Limited | Dublin – IE | – | 100.00 |
| IIB Asset Finance Limited | Dublin – IE | – | 100.00 |
| IIB Commercial Finance Limited | Dublin – IE | – | 100.00 |
| IIB Leasing Limited | Dublin – IE | – | 100.00 |
| Khans Holdings Limited | Dublin – IE | – | 100.00 |
| Lease Services Limited | Dublin – IE | – | 100.00 |
| IIB Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| Cluster Properties Company | Dublin – IE | – | 100.00 |
| Demilune Limited | Dublin – IE | – | 100.00 |
| IIB Homeloans Limited | Dublin – IE | – | 100.00 |
| KBC Homeloans and Finance Limited | Dublin – IE | – | 100.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| Premier Homeloans Limited | Surrey – GB | – | 100.00 |
| Staple Properties Limited | Dublin – IE | – | 100.00 |
| IIB Nominees Limited | Dublin – IE | – | 100.00 |
| Stepstone Mortgage Services Limited | Dublin – IE | – | 100.00 |
| Intercontinental Finance | Dublin – IE | – | 100.00 |
| Irish Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| Kalzari Limited | Dublin – IE | – | 100.00 |
| Linkway Developments Limited | Dublin – IE | – | 100.00 |
| Maurevel Investment Company Limited | Dublin – IE | – | 100.00 |
| Meridian Properties Limited | Dublin – IE | – | 100.00 |
| Merrion Commercial Leasing Limited | Surrey – GB | – | 100.00 |
| Merrion Equipment Finance Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Assets Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Finance Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Industrial Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Services Limited | Surrey – GB | – | 100.00 |
| Monastersky Limited | Dublin – IE | – | 100.00 |
| Needwood Properties Limited | Dublin – IE | – | 100.00 |
| Perisda Limited | Dublin – IE | – | 100.00 |
| Phoenix Funding Plc. | Dublin – IE | – | 100.00 |
| Quintor Limited | Dublin – IE | – | 100.00 |
| Rolata Limited | Douglas – IM | – | 100.00 |
| Wardbury Properties Limited | Dublin – IE | – | 100.00 |
| IIB Finance Ireland | Dublin – IE | – | 100.00 |
| KBC Finance Ireland | Dublin – IE | – | 100.00 |
| KBC Asset Management NV | Brussels – BE | 0469.444.267 | 100.00 |
| Bemab NV | Brussels – BE | 0403.202.670 | 100.00 |
| KBC Access Fund Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Asset Management Limited | Dublin – IE | – | 100.00 |
| KBC Asset Management International Limited | Dublin – IE | – | 100.00 |
| KBC Asset Management (UK) Limited | London – GB | – | 100.00 |
| KBC Fund Managers Limited | Dublin – IE | – | 100.00 |
| KBC Asset Management SA | Luxembourg – LU | – | 100.00 |
| KBC Bonds Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Cash Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Conseil Service SA | Luxembourg – LU | – | 100.00 |
| KBC Districlick Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Equity Fund Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Fund Partners Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Invest Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Life Invest Fund Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Money Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Renta Conseil Holding SA | Luxembourg – LU | – | 100.00 |
| KBC Towarzystwo Funduszy Inwestycyjnych a.s. | Warsaw – PL | – | 94.00 |
| KBC Bank Deutschland AG | Bremen – DE | – | 99.76 |
| KBC Bank Funding LLC II | New York – US | – | 100.00 |
| KBC Bank Funding LLC III | New York – US | – | 100.00 |
| KBC Bank Funding LLC IV | New York – US | – | 100.00 |
| KBC Bank Funding Trust II | New York – US | – | 100.00 |
| KBC Bank Funding Trust III | New York – US | – | 100.00 |
| KBC Bank Funding Trust IV | New York – US | – | 100.00 |
| KBC Bank Nederland NV | Rotterdam – NL | – | 100.00 |
| Westersingel Holding BV | Rotterdam – NL | – | 100.00 |
| KBC Bank (Singapore) Limited | Singapore – SG | – | 100.00 |
| KBC Clearing NV | Amsterdam – NL | – | 100.00 |
| KBC Commercial Finance NV | Brussels – BE | 0403.278.488 | 100.00 |
| KBC Consumer Finance IFN sa | Bucharest – RO | – | 100.00 |
| KBC Credit Invesments NV | Brussels – BE | 0887.849.512 | 100.00 |
| KBC Dublin Capital Plc. | Dublin – IE | – | 100.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| KBC Financial Products UK Limited | London – GB | – | 100.00 |
| Atomium Funding Corporation SPV | George Town – KY | – | 100.00 |
| Baker Street Finance Limited | Jersey – GB | – | 100.00 |
| Dorset Street Finance Limited | Jersey – GB | – | 100.00 |
| Hanover Street Finance Limited | Jersey – GB | – | 100.00 |
| KBC AIM Master Fund spc - KBC Diversified Fund | George Town – KY | – | 98.40 |
| KBC Asia Fund of Funds | George Town – KY | – | 94.05 |
| KBC Asia Pacific LP | George Town – KY | – | 92.19 |
| KBC Credit Arbitrage Limited | George Town – KY | – | 97.70 |
| KBC Financial Products Hong Kong Limited | Hong Kong – HK | – | 100.00 |
| KBC Financial Products Trading Hong Kong Limited | Hong Kong – HK | – | 100.00 |
| KBC Pacific Fund of Funds | George Town – KY | – | 98.66 |
| KBC Special Opportunities Fund | George Town – KY | – | 100.00 |
| Old Brompton Fixed Income Fund Limited | George Town – KY | – | 92.50 |
| Pembridge Square Limited | Jersey – GB | – | 100.00 |
| Picaros Funding Plc. | Dublin – IE | – | 100.00 |
| Picaros Purchasing no.3 Limited | Dublin – IE | – | 100.00 |
| Progress Capital Fund Limited | George Town – KY | – | 97.00 |
| Regent Street Finance Limited | Jersey – GB | – | 100.00 |
| Sydney Street Finance Limited | Jersey – GB | – | 100.00 |
| Vertical Lend | Melville – US | – | 100.00 |
| KBC Alternative Investment Management Belgium NV | Brussels – BE | 0883.054.940 | 100.00 |
| KBC Alternative Investment Management Limited | London – GB | – | 100.00 |
| KBC Alternative Investment Management HK Limited | Hong Kong – HK | – | 100.00 |
| KBC Financial Holding Inc. | Wilmington – US | – | 100.00 |
| Corona Delaware LLC | Delaware – US | – | 100.00 |
| Churchill Finance LLC | Delaware – US | – | 100.00 |
| KBC Financial Products (Cayman Islands) Limited “Cayman I” | George Town – KY | – | 100.00 |
| KBC Financial Products International Limited “Cayman III” | George Town – KY | – | 100.00 |
| KBC FP International VI Limited “Cayman VI” | George Town – KY | – | 100.00 |
| KBC Financial Products USA Inc. | New York – US | – | 100.00 |
| KBC FP Cayman Finance Limited “Cayman II” | George Town – KY | – | 100.00 |
| Midas Life Settlements LLC | Delaware – US | – | 100.00 |
| Nabula Holdings LLC | Delaware – US | – | 100.00 |
| Pacifica Group LLC | Delaware – US | – | 100.00 |
| Atlas Insurance Services LLC | Wisconsin - US | – | 100.00 |
| Certo Insurance Services LLC | Delaware – US | – | 100.00 |
| Devon Services LLC | Delaware – US | – | 100.00 |
| Dorato Insurance Services LLC | Delaware – US | – | 100.00 |
| Equity Key LLC | Delaware – US | – | 100.00 |
| Estate Planning LLC | Delaware – US | – | 100.00 |
| H/G II LLC | Delaware – US | – | 100.00 |
| Londsdale LLC | Wisconsin – US | – | 100.00 |
| Oceanus LLC | Wisconsin – US | – | 100.00 |
| Stone River Life LLC | Delaware – US | – | 100.00 |
| Stratford Services LLC | Wisconsin – US | – | 100.00 |
| Welden Insurance Services LLC | Delaware – US | – | 100.00 |
| Pulsar Holdings LLC | Delaware – US | – | 100.00 |
| Spurling I LLC | Delaware – US | – | 100.00 |
| Spurling II LLC | Delaware – US | – | 100.00 |
| Strategic Alpha Limited | George Town – KY | – | 100.00 |
| KBC Investments Hong Kong Limited | Hong Kong – HK | – | 100.00 |
| KBC Consultancy Services Korea Limited | Seoul – KR | – | 100.00 |
| KBC Consultancy Services (Shenzhen) Limited | Shenzhen – CN | – | 100.00 |
| KBC Investments Cayman Islands Limited “Cayman IV” | George Town – KY | – | 100.00 |
| KBC Investments Cayman Islands V Limited | George Town – KY | – | 100.00 |
| KBC Investments Cayman Islands VII Limited | George Town – KY | – | 100.00 |
| KBC Investments Cayman Islands VIII Limited | George Town – KY | – | 100.00 |
| Seoul Value Trust | Seoul – KR | – | 100.00 |
| KBC Investments Limited | London – GB | – | 100.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| KBC International Portfolio SA | Luxembourg – LU | – | 100.00 |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | – | 100.00 |
| KBC International Finance NV | Rotterdam – NL | – | 100.00 |
| KBC Lease Holding NV | Diegem – BE | 0403.272.253 | 100.00 |
| Dala Property Holding III BV | Amsterdam – NL | – | 100.00 |
| Sicalis NV | Amsterdam – NL | – | 100.00 |
| Fitraco NV | Antwerp – BE | 0425.012.626 | 100.00 |
| INK Consultanta - Broker de Asigurare SRL | Bucharest – RO | – | 100.00 |
| KBC Autolease NV | Diegem – BE | 0422.562.385 | 100.00 |
| KBC Bail Immobilier France sas | Paris – FR | – | 100.00 |
| KBC Lease Belgium NV | Leuven – BE | 0426.403.684 | 100.00 |
| KBC Lease France SA | Lyon – FR | – | 100.00 |
| KBC Bail France sas | Lyon – FR | – | 100.00 |
| KBC Lease (Nederland) BV | Bussum – NL | – | 100.00 |
| Cathar BV | Bussum – NL | – | 100.00 |
| Gooieen BV | Bussum – NL | – | 100.00 |
| Hospiveen BV | Bussum – NL | – | 100.00 |
| Mercala 1 BV | Bussum – NL | – | 100.00 |
| Mercala 2 BV | Bussum – NL | – | 100.00 |
| KBC Lease Polska Sp z.o.o. | Warsaw – PL | – | 100.00 |
| KBC Lease (UK) Limited | Surrey – GB | – | 100.00 |
| KBC Lease (Deutschland) GmbH & Co. KG | Kronberg – DE | – | 91.94 |
| KBC Autolease (Deutschland) GmbH | Kronberg – DE | – | 91.94 |
| KBC Immobilienlease (Deutschland) GmbH | Kronberg – DE | – | 91.94 |
| KBC Lease (Deutschland) Vermietungs GmbH | Kronberg – DE | – | 91.94 |
| KBC Vendor Lease (Deutschland) Service GmbH | Kronberg – DE | – | 91.94 |
| KBC Vendor Finance (Deutschland) GmbH | Kronberg – DE | – | 91.94 |
| KBC Vendor Lease (Deutschland) GmbH | Kronberg – DE | – | 91.94 |
| Protection One Service GmbH | Kronberg – DE | – | 91.94 |
| SCS Finanzdienstleistungs GmbH | Kronberg – DE | – | 91.94 |
| KBC Lease (Deutschland) Verwaltungs GmbH | Kronberg – DE | – | 75.94 |
| KBC Lease España SA | Madrid – ES | – | 100.00 |
| KBC Lease Italia S.p.A. | Verona – IT | – | 100.00 |
| KBC Lease (Luxembourg) SA | Strassen – LU | – | 100.00 |
| KBC Lizing Magyarország Kereskedelmi és Szolgátató Kft. | Budapest – HU | – | 100.00 |
| KBC Vendor Lease NV | Diegem – BE | 0444.058.872 | 100.00 |
| Romstal Leasing IFN SA | Bucharest – RO | – | 99.34 |
| Securitas sam | Nandrin – NC | – | 100.00 |
| KBC Peel Hunt Limited | London – GB | – | 99.99 |
| KBC Peel Hunt CFD Limited | London – GB | – | 99.99 |
| KBC Peel Hunt Incorporated | London – GB | – | 99.99 |
| Peel Hunt Nominees Limited | London – GB | – | 99.99 |
| P.H. Nominees Limited | London – GB | – | 99.99 |
| P.H. Trustees Limited | London – GB | – | 99.99 |
| KBC Pinto Systems NV | Brussels – BE | 0473.404.540 | 60.01 |
| KBC Private Equity NV | Brussels – BE | 0403.226.228 | 100.00 |
| Dynaco Group NV | Moorsel – BE | 0893.428.495 | 89.54 |
| Dynaco Europe NV | Moorsel – BE | 0439.752.567 | 89.54 |
| Dynaco International NV | Moorsel – BE | 0444.223.079 | 89.54 |
| Dynaco USA Inc. | Northbrook – US | – | 89.54 |
| KBC ARKIV NV | Brussels – BE | 0878.498.316 | 52.00 |
| Mezzafinance NV | Brussels – BE | 0453.042.260 | 100.00 |
| Novaservis a.s. | Brno – CZ | – | 94.57 |
| Wever & Ducré Lighting Group NV | Roeselare – BE | 0891.731.886 | 50.01 |
| Wever & Ducré NV | Roeselare – BE | 0412.881.191 | 50.01 |
| Wever & Ducré GmbH | Herzogenrath – DE | – | 50.01 |
| Wever & Ducré BV | The Hague – NL | – | 50.01 |
| Wever & Ducré Iluminacion SL | Madrid – ES | – | 50.01 |
| Wever & Ducré Asia Pacific Limited | Hong Kong – HK | – | 50.01 |
| KBC Real Estate Luxembourg SA | Luxembourg – LU | – | 100.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| KBC Real Estate NV | Zaventem – BE | 0404.040.632 | 100.00 |
| Almafin Real Estate NV | Brussels – BE | 0403.355.494 | 100.00 |
| Immo Arenberg NV | Brussels – BE | 0471.901.337 | 100.00 |
| KBC Vastgoedinvesteringen NV | Brussels – BE | 0455.916.925 | 99.00 |
| KBC Vastgoedportefeuille België NV | Brussels – BE | 0438.007.854 | 87.90 |
| Novoli Investors BV | Amstelveen – NL | – | 83.33 |
| Poelaert Invest NV | Zaventem – BE | 0478.381.531 | 99.99 |
| Vastgoed Ruimte Noord NV | Brussels – BE | 0863.201.515 | 100.00 |
| KBC Securities NV | Brussels – BE | 0437.060.521 | 100.00 |
| KBC Equitas LLC | Budapest – HU | – | 100.00 |
| KBC Securitas a.d. Beograd | Belgrade – RS | – | 100.00 |
| KBC Securities Baltic Investment Company sia | Riga – LV | – | 51.05 |
| KBC Securities Ukraine LLC | Kiev – UA | – | 51.05 |
| KBC Securities Romania SA | Bucharest – RO | – | 100.00 |
| SAI Swiss Capital Asset Management SA | Bucharest – RO | – | 100.00 |
| Ligeva NV | Mortsel – BE | 0437.002.519 | 100.00 |
| Patria Finance a.s. | Prague – CZ | – | 100.00 |
| Patria Finance CF a.s. | Prague – CZ | – | 100.00 |
| Patria Finance Slovakia a.s. | Bratislava – SK | – | 100.00 |
| Patria Online a.s. | Prague – CZ | – | 100.00 |
| Patria Direct a.s. | Prague – CZ | – | 100.00 |
| Kereskedelmi és Hitelbank Rt. | Budapest – HU | – | 100.00 |
| K & H Alkusz Kft. | Budapest – HU | – | 100.00 |
| K & H Csoportszolgáltató Központ Kft. | Budapest – HU | – | 100.00 |
| K & H Equities Rt. | Budapest – HU | – | 100.00 |
| K & H Ertékpapir Befektetési Alapkezelö Rt. | Budapest – HU | – | 100.00 |
| K & H Lízingadminisztrációs Rt. | Budapest – HU | – | 100.00 |
| K & H Eszközfinanszirozó Rt. | Budapest – HU | – | 100.00 |
| K & H Eszközlizing Gép-és Thrgj. Bérleti Kft. | Budapest – HU | – | 100.00 |
| K & H Lizingház Rt. | Budapest – HU | – | 100.00 |
| K & H Pannonlizing Rt. | Budapest – HU | – | 100.00 |
| K & H Autófinanszirozó Pénzügyl Szolgátató Rt. | Budapest – HU | – | 100.00 |
| K & H Autópark Bérleti és Szolg Kft. | Budapest – HU | – | 100.00 |
| K & H Ingatlanlizing Kft. | Budapest – HU | – | 100.00 |
| K & H Lizing Rt. | Budapest – HU | – | 100.00 |
| Kvantum Követeléskezelõ és Befektetési Rt. | Budapest – HU | – | 100.00 |
| Kredyt Bank SA | Warsaw – PL | – | 80.00 |
| Kredyt International Finance BV | Rotterdam – NL | – | 80.00 |
| Kredyt Lease SA | Warsaw – PL | – | 80.00 |
| Kredyt Trade Sp z.o.o. | Warsaw – PL | – | 80.00 |
| Reliz SA | Katowice – PL | – | 80.00 |
| Żagiel SA | Warsaw – PL | – | 80.00 |
| Loan Invest NV, 'Institutional company for investment in receivables under Belgian law' | Brussels – BE | 0889.054.884 | 100.00 |
| Quasar Securitisation Company NV | Brussels – BE | 0475.526.860 | 100.00 |
| **KBC Bank: subsidiaries that are not fully consolidated[1]** | | | |
| ADB Private Equity Limited | St Helier – GB | – | 80.00 |
| Aldersgate Finance Limited | St Helier – GB | – | 100.00 |
| Almafin Real Estate Services NV | Zaventem – BE | 0416.030.525 | 100.00 |
| Almaloisir & Immobilier sas | Nice – FR | – | 100.00 |
| Apitri NV | Diegem – BE | 0469.889.873 | 100.00 |
| Atomium Funding LLC | Delaware – US | – | 100.00 |
| Avebury Limited | Dublin – IE | – | 100.00 |
| Baker Street USD Finance Limited | St Helier – GB | – | 100.00 |
| Bankowa Polana Sp z.o.o. | Warsaw – PL | – | 53.60 |
| Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. | Warsaw – PL | – | 80.00 |
| Brussels North Distribution NV | Brussels – BE | 0476.212.887 | 100.00 |
| Chiswell Street Finance Limited | St Helier – GB | – | 100.00 |
| City Hotels NV | Zaventem – BE | 0416.712.394 | 85.51 |
| City Hotels International NV | Zaventem – BE | 0449.746.735 | 85.51 |
| CH Corp | Rockville – US | – | 85.51 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| Clifton Finance Street Limited | St Helier – GB | – | 100.00 |
| Dala Beheer BV | Amsterdam – NL | – | 100.00 |
| Dala Property Holding XV BV | Amsterdam – NL | – | 100.00 |
| Distienen NV | Zaventem – BE | 0452.312.285 | 100.00 |
| Dorlick Vastgoedmaatschappij NV | Zaventem – BE | 0434.885.345 | 100.00 |
| Eurincasso s.r.o. | Prague – CZ | – | 100.00 |
| Fulham Road Finance Limited | St Helier – GB | – | 100.00 |
| Gie Groupe KBC Paris | Paris – FR | – | 100.00 |
| Immo-Accent NV[2] | Brussels – BE | 0465.538.335 | 99.99 |
| Immo-Antares NV[2] | Brussels – BE | 0456.398.361 | 95.00 |
| Immo-Basilix NV[2] | Brussels – BE | 0453.348.801 | 95.00 |
| Immo-Beaulieu NV[2] | Brussels – BE | 0450.193.133 | 50.00 |
| Immobilière Distri-Land NV[2] | Brussels – BE | 0436.440.909 | 87.52 |
| Immo-Duo NV | Zaventem – BE | 0435.573.154 | 100.00 |
| Immo Genk-Zuid NV | Zaventem – BE | 0464.358.497 | 100.00 |
| Immo Kolonel Bourgstraat NV[2] | Brussels – BE | 0461.139.879 | 50.00 |
| Immolease-Trust NV | Zaventem – BE | 0406.403.076 | 100.00 |
| Immo-Llan NV[2] | Brussels – BE | 0448.079.820 | 99.56 |
| Immo Lux-Airport SA[2] | Luxembourg – LU | – | 66.64 |
| Immo Marcel Thiry NV[2] | Brussels – BE | 0450.997.441 | 95.00 |
| Immo-North Plaza NV[2] | Brussels – BE | 0462.118.688 | 99.99 |
| IMMO PARIJSSTRAAT NV | Leuven – BE | 0439.655.765 | 100.00 |
| Immo-Plejaden NV[2] | Brussels – BE | 0461.434.344 | 99.99 |
| Immo-Quinto NV | Zaventem – BE | 0466.000.470 | 100.00 |
| Immo-Regentschap NV[2] | Brussels – BE | 0452.532.714 | 75.00 |
| Immo-Tres NV | Zaventem – BE | 0465.755.990 | 100.00 |
| Immo Zenobe Gramme NV[2] | Brussels – BE | 0456.572.664 | 100.00 |
| KB-Consult NV | Brussels – BE | 0437.623.220 | 100.00 |
| KBC Alternative Investment Management (USA) Inc. | Delaware – US | – | 100.00 |
| KBC Broker a.d. | Belgrade – RS | – | 100.00 |
| KBC Financial Services (Ireland) Limited | Dublin – IE | – | 100.00 |
| KBC North American Finance Corporation | Delaware – US | – | 100.00 |
| KBC Private Equity Advisory Services Limited Liability Company | Budapest – HU | – | 100.00 |
| KBC Private Equity Advisory Services s.r.o. | Prague – CZ | – | 100.00 |
| KBC Private Equity Advisory Services Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| KBC Private Equity Consulting S.R.L. | Bucharest – RO | – | 100.00 |
| KBC Securities B-H a.d. Banja Luka | Banja Luka – BA | – | 100.00 |
| KBC Securities Corporate Finance LLC | Belgrade – RS | – | 60.00 |
| KBC Securities Montenegro a.d. Potgorica | Montenegro – CS | – | 100.00 |
| KBC Securities Skopje a.d. Skopje | Skopje – MK | – | 100.00 |
| KBC Structured Finance Limited | Sydney – AU | – | 100.00 |
| KBC Vastgoed Portefeuille Nederland | Rotterdam – NL | – | 100.00 |
| Kredietfinance Corporation (June) Limited | Surrey – GB | – | 100.00 |
| Kredietfinance Corporation (September) Limited | Surrey – GB | – | 100.00 |
| Kredietlease (UK) Limited | Surrey – GB | – | 100.00 |
| Kredyt Bank SA i TUiR WARTA SA | Warsaw – PL | – | 100.00 |
| Liontamer Investment Management Pty Limited | Sydney – AU | – | 51.00 |
| Liontamer Investment Services Limited | Auckland – NZ | – | 51.00 |
| LIZAR Sp z.o.o. | Warsaw – PL | – | 80.00 |
| Lombard Street Limited | Dublin – IE | – | 100.00 |
| Luxembourg North Distribution | Luxembourg – LU | – | 100.00 |
| Luxembourg Offices Securitisations SA | Luxembourg – LU | – | 90.09 |
| Mechelen City Center NV | Heffen – BE | 0471.562.332 | 100.00 |
| Motokov a.s. | Prague – CZ | – | 69.10 |
| Net Banking Sp z.o.o. | Warsaw – PL | – | 80.00 |
| Newcourt Street Finance Limited | St Helier – GB | – | 100.00 |
| OOO "Absolut Lizing" | Moscow – RU | – | 95.00 |
| OOO Lizingovaya Kompaniya "Absolut" | Moscow – RU | – | 95.00 |
| Oxford Street Finance Limited | St Helier – GB | – | 100.00 |
| Parkeergarage De Panne NV | Brussels – BE | 0881.909.548 | 90.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| Pericles Invest NV | Zaventem – BE | 0871.593.005 | 100.00 |
| Picaros Funding LLC | Wilmington – US | – | 100.00 |
| Picaros Purchasing No.1 Limited | Dublin – IE | – | 100.00 |
| Picaros Purchasing No.2 Limited | Dublin – IE | – | 100.00 |
| Renthotel Utah LC | Rockville – US | – | 85.51 |
| Renthotel Singer LLC | Rockville – US | – | 85.51 |
| Risk Kft. | Budapest – HU | – | 99.96 |
| Servipolis Management Company NV | Zaventem – BE | 0442.552.206 | 70.00 |
| SM Vilvoorde NV | Zaventem – BE | 0425.859.197 | 100.00 |
| Sunrise Asset Manangement Co Limited | Tapei – TW | – | 54.00 |
| TEE Square Limited | Road Town – VG | – | 100.00 |
| Threadneedle Finance Limited | St Helier – GB | – | 100.00 |
| Trustimmo NV | Zaventem – BE | 0413.954.626 | 100.00 |
| Vastgoedmaatschappij Manhattan-Kruisvaarten NV | Zaventem – BE | 0419.336.938 | 100.00 |
| Vermögensverwaltungsgesellschaft Merkur mbH | Bremen – DE | – | 99.76 |
| Wetenschap Real Estate NV | Zaventem – BE | 0871.247.565 | 100.00 |
| Weyveld Vastgoedmaatschappij NV | Zaventem – BE | 0425.517.818 | 100.00 |
| Willowvale Company | Dublin – IE | – | 100.00 |

## KBC Bank: joint subsidiaries that are proportionately consolidated

| | | | |
|---|---|---|---|
| Ceskomaravská Stavebni Sporitelna a.s. | Prague – CZ | – | 55.00 |
| Covent Garden Real Estate NV | Zaventem – BE | 0872.941.897 | 50.00 |
| Immobiliare Novoli SpA | Florence – IT | – | 44.80 |
| KBC Goldstate Fund Management Co. Limited | Shanghai – CN | – | 49.00 |
| Real Estate Participation NV | Zaventem – BE | 0473.018.817 | 50.00 |
| Société Agricole des Grands Lacs SA | Luxembourg – LU | – | 50.00 |
| Romarin Real Estate sas | Lille – FR | – | 50.00 |

## KBC Bank: joint subsidiaries that are not proportionately consolidated[1]

| | | | |
|---|---|---|---|
| Atrium Development SA | Luxembourg – LU | – | 25.00 |
| Barbarahof NV | Zaventem – BE | 0880.789.197 | 30.00 |
| Consorzio Sandonato Est | Florence – IT | – | 22.80 |
| Covent Garden Development NV | Brussels – BE | 0892.236.187 | 25.00 |
| FM-A Invest NV | Diegem – BE | 0460.902.725 | 50.00 |
| Immocert t'Serclaes NV | Zaventem – BE | 0433.037.989 | 50.00 |
| Jesmond Amsterdam NV | Amsterdam – NL | – | 50.00 |
| Miedziana Sp z.o.o. | Warsaw – PL | – | 47.75 |
| Panton Kortenberg Vastgoed NV "Pako Vastgoed" | St Niklaas – BE | 0437.938.766 | 50.00 |
| Amdale Holdings Limited NV | Diegem – BE | 0452.146.563 | 50.00 |
| Pakobo NV | Diegem – BE | 0474.569.526 | 50.00 |
| Rumst Logistics NV | Machelen – BE | 0862.457.583 | 50.00 |
| Perifund NV | Brussels – BE | 0465.369.673 | 50.00 |
| Prague Real Estate NV | Zaventem – BE | 0876.309.678 | 50.00 |
| Real Estate Administration a.s. | Prague – CZ | – | 30.05 |
| Resiterra NV | Zaventem – BE | 0460.925.588 | 50.00 |
| Rumst Logistics II NV | Machelen – BE | 0880.830.076 | 50.00 |
| Rumst Logistics III NV | Machelen – BE | 0860.829.383 | 50.00 |
| Sandonato Parcheggi Srl | Florence – IT | – | 44.70 |
| Sandonato Srl | Florence – IT | – | 44.70 |

## KBC Bank: companies accounted for using the equity method

| | | | |
|---|---|---|---|
| Budatrend III. Ingatlanhasznosító Rt. | Budapest – HU | – | 34.33 |
| Foxhill Opportunity Offshore Fund | Princeton – GB | – | 43.00 |
| Giro Elszámolásforgáltátó Rt. | Budapest – HU | – | 20.99 |
| HAGE Hajdúsági Agráripari Résvényatársaság | Budapest – HU | – | 25.00 |
| Isabel NV | Brussels – BE | 0455.530.509 | 25.33 |
| K & H International Treasury Service Szolg. Kft. | Budapest – HU | – | 100.00 |
| Nova Ljubljanska banka d.d. | Ljubljana – SI | – | 34.00 |
| Prague Stock Exchange a.s. | Prague – CZ | – | 24.39 |

## KBC Bank: companies not accounted for using the equity method[1]

| | | | |
|---|---|---|---|
| Banking Funding Company NV | Brussels – BE | 0884.525.182 | 22.90 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| BCC Corporate NV | Brussels – BE | 0883.523.807 | 23.95 |
| Bedrijvencentrum Noordoost-Antwerpen NV | Antwerp – BE | 0455.474.485 | 21.28 |
| Bedrijvencentrum Rupelstreek NV | Aartselaar – BE | 0427.329.936 | 33.33 |
| Brand and Licence Company NV | Brussels – BE | 0884.499.250 | 20.00 |
| Czech Banking Credit Bureau a.s. | Prague – CZ | – | 20.00 |
| Etoiles d'Europe sas | Paris – FR | – | 45.00 |
| Justinvest Antwerpen NV | Antwerp – BE | 0476.658.097 | 33.33 |
| Kattendijkdok NV | Antwerp – BE | 0863.854.482 | 39.00 |
| Prvni Certifikacni Autorita a.s. | Prague – CZ | – | 23.25 |
| Rabot Invest NV | Antwerp – BE | 0479.758.733 | 25.00 |
| Sea Gate Logistics NV | Aalst – BE | 0480.040.627 | 25.00 |
| Transportbeton GmbH | Delmenhorst – DE | – | 25.88 |
| **KBC Insurance: subsidiaries that are fully consolidated** | | | |
| KBC Insurance NV | Leuven – BE | 0403.552.563 | 100.00 |
| A Banka A.D. Beograd | Belgrade – RS | – | 100.00 |
| ADD NV | Heverlee – BE | 0406.080.350 | 100.00 |
| Assurisk SA | Luxembourg – LU | – | 100.00 |
| Anglesea Financial Products Limited | Dublin – IE | – | 100.00 |
| KBC Financial Indemnity Insurance SA | Luxembourg – LU | – | 100.00 |
| ČSOB Pojišťovna a.s. | Pardubice – CZ | – | 100.00 |
| ČSOB Poisťovňa a.s. | Bratislava – SK | – | 100.00 |
| Fidea NV | Antwerp – BE | 0406.006.069 | 100.00 |
| Groep VTB-VAB NV | Zwijndrecht – BE | 0456.267.594 | 64.80 |
| Car Dent Benelux NV | Zwijndrecht – BE | 0460.861.351 | 64.80 |
| Interassistance NV | Zwijndrecht – BE | 0439.707.928 | 64.15 |
| VTB-VAB NV | Zwijndrecht – BE | 0436.267.594 | 64.80 |
| VDB Fleet Services NV | Zwijndrecht – BE | 0866.583.053 | 45.21 |
| K & H Insurance Rt. | Budapest – HU | – | 100.00 |
| KBC Life Fund Management SA | Luxembourg – LU | – | 100.00 |
| KBC Life Fund Management Ireland Limited | Dublin – IE | – | 99.00 |
| Secura NV | Brussels – BE | 0403.293.336 | 95.04 |
| Securlux SA | Luxembourg – LU | – | 100.00 |
| TUiR WARTA SA | Warsaw – PL | – | 100.00 |
| Powszechne Towarzystwo Emerytalne Dom SA | Warsaw – PL | – | 100.00 |
| Tun'Z WARTA VITA SA | Warsaw – PL | – | 99.17 |
| VITIS Life Luxembourg SA | Luxembourg – LU | – | 99.99 |
| Data Office NV | Leuven – BE | 0413.719.252 | 99.99 |
| ZPAD DZI | Sofia – BG | – | 89.37 |
| ZPAD DZI General Insurance | Sofia – BG | – | 87.40 |
| DZI Invest AD | Sofia – BG | – | 88.19 |
| Galloway Bulgaria OOD | Sofia – BG | – | 88.39 |
| Air Ban OOD | Sofia – BG | – | 74.51 |
| DZI recreation and tourism EOOD | Sofia – BG | – | 89.37 |
| Health Insurance DZI AD | Sofia – BG | – | 74.28 |
| Medical center DZI EOOD | Sofia – BG | – | 74.28 |
| **KBC Insurance: subsidiaries that are not fully consolidated[1]** | | | |
| Almarisk NV | Merelbeke – BE | 0420.104.030 | 100.00 |
| Almarisk UK Limited | Surrey – GB | – | 100.00 |
| Concert Noble NV | Brussels – BE | 0431.304.164 | 100.00 |
| ČSOB Insurance Service Limited | Pardubice – CZ | – | 100.00 |
| Fundacja WARTA | Warsaw – PL | – | 100.00 |
| Gdynia America Shipping Lines (London) Limited | London – GB | – | 73.68 |
| KBC Frequent Click Conseil SA | Luxembourg – LU | – | 100.00 |
| KBC Verzekeringen Vastgoed Nederland I BV | Rotterdam – NL | – | 100.00 |
| KBC Zakenkantoor NV | Leuven – BE | 0462.315.361 | 100.00 |
| Maatschappij voor Brandherverzekering CVBA | Leuven – BE | 0403.552.761 | 90.55 |
| Omnia CVBA | Leuven – BE | 0413.646.305 | 100.00 |
| Van Clapdurp BVBA | Mortsel – BE | 0418.119.488 | 100.00 |
| WARTA Cultus Sp.z.o.o. | Warsaw – PL | – | 100.00 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| WARTA Finance SA | Warsaw – PL | – | 100.00 |
| WARTA Investment Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| WARTA Nieruchomosci Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| WARTA Tourism Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| **KBC Insurance: joint subsidiaries that are proportionately consolidated** | | | |
| NLB Vita d.d. | Ljubljana – SI | – | 50.00 |
| **KBC Insurance: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| – | | | |
| **KBC Insurance: companies accounted for using the equity method** | | | |
| – | | | |
| **KBC Insurance: companies not accounted for using the equity method[1]** | | | |
| AIA-Pool CVBA | Brussels – BE | 0453.634.752 | 22.00 |
| Assurcard NV | Leuven – BE | 0475.433.127 | 33.33 |
| Optimobil Belgium NV | Brussels – BE | 0471.868.277 | 33.33 |
| Procar SA | Warsaw – PL | – | 23.65 |
| **KBL EPB: subsidiaries that are fully consolidated** | | | |
| Kredietbank SA Luxembourgeoise | Luxembourg – LU | – | 99.91 |
| Brown, Shipley & Co. Limited | London – GB | – | 99.91 |
| Brown, Shipley Holding (Jersey) Limited | Jersey – GB | – | 99.91 |
| Cawood Smithie & Co. | London – GB | – | 99.91 |
| Fairmount Group Nominees Limited | Leatherhead – GB | – | 99.91 |
| Fairmount Pension Trustee Limited | London – GB | – | 99.91 |
| Fairmount Trustee Services Limited | Leatherhead – GB | – | 99.91 |
| KBL Investment Funds Limited | London – GB | – | 99.91 |
| Stark Trustee Company | Leatherhead – GB | – | 99.91 |
| The Brown Shipley Pension Portfolio Limited | London – GB | – | 99.91 |
| White Rose Nominee Limited | London – GB | – | 99.91 |
| Fidef Ingénierie Patrimoniale SA | La Rochelle – FR | – | 99.91 |
| Financière et Immobiliaire SA | Luxembourg – LU | – | 99.91 |
| KB Lux Immo SA | Luxembourg – LU | – | 99.91 |
| Centre Europe SA | Luxembourg – LU | – | 99.91 |
| Rocher Limited | Douglas – IM | – | 99.91 |
| sci KB Luxembourg Immo III (Monaco) | Monaco – MC | – | 99.91 |
| KB Luxembourg (Monaco) SA | Monaco – MC | – | 99.91 |
| sci KB Luxembourg Immo I (Monaco) | Monaco – MC | – | 99.91 |
| KBL Beteiligungs AG | Mainz – DE | – | 99.91 |
| Merck Finck & Co. | Munich – DE | – | 99.91 |
| Merck Finck Invest Asset Management GmbH | Munich – DE | – | 99.91 |
| Merck Finck Pension Fund | Munich – DE | – | 99.91 |
| Merck Finck Treuhand AG | Munich – DE | – | 99.91 |
| Merck Finck Vermögensbetreuungs AG | Munich – DE | – | 99.91 |
| Unterstützung u. Einrichtung der Bank | Munich – DE | – | 99.91 |
| Modernisierungsgesellschaft Lübecker Strasse | Mainz – DE | – | 78.99 |
| KBL Finance Limited | Dublin – IE | – | 99.91 |
| KBL France SA | Paris – FR | – | 99.91 |
| Rene Abballea Finance | Brest – FR | – | 99.91 |
| KBL France Gestion | Paris – FR | – | 99.86 |
| Kredietbank Informatique GIE | Luxembourg – LU | – | 99.91 |
| Kredietbank (Suisse) SA | Geneva – CH | – | 99.90 |
| Privagest SA | Geneva – CH | – | 99.90 |
| Kredietrust Luxembourg SA | Luxembourg – LU | – | 99.91 |
| Puilaetco Dewaay Private Bankers SA | Luxembourg – LU | – | 99.91 |
| Puilaetco Private Bankers SA | Brussels – BE | 0403.236.126 | 99.91 |
| Banque Puilaetco Luxembourg SA | Luxembourg – LU | – | 99.91 |
| DL Quality Asset Management SA | Luxembourg – LU | – | 99.91 |
| Theodoor Gilissen Bankiers NV | Amsterdam – NL | – | 99.91 |
| Administratiekantoor Interland BV | Amsterdam – NL | – | 99.91 |
| Administratiekantoor voor Handel en Nijverheid BV | Amsterdam – NL | – | 99.91 |

| Name | Registered office | VAT number or national identification number | Share of capital held at group level (%) |
|---|---|---|---|
| Administratiekantoor Gebr. Boissevain en Texeira BV | Amsterdam – NL | – | 99.91 |
| Administratiekantoor Gebr. Boissevain en Kerkhoven BV | Amsterdam – NL | – | 99.91 |
| Administratiekantoor van Theodoor Gilissen NV | Amsterdam – NL | – | 99.91 |
| Pacific Adminstratiekantoor BV | Amsterdam – NL | – | 99.91 |
| Trust- en Administratiekantoor Mij. Interland BV | Amsterdam – NL | – | 99.91 |
| Financiële Onderneming Smidswater BV | The Hague – NL | – | 99.91 |
| Lange Voorbehout BV | Amsterdam – NL | – | 99.91 |
| Stroeve Asset Mangement BV | Amsterdam – NL | – | 99.91 |
| Stroeve Breda & Co. NV | Amsterdam – NL | – | 99.91 |
| TG Fund Management BV | Amsterdam – NL | – | 99.91 |
| TG Ventures BV | Amsterdam – NL | – | 99.91 |
| Theodoor Gilissen Global Custody BV | Amsterdam – NL | – | 99.91 |
| Theodoor Gilissen Trust BV | Amsterdam – NL | – | 99.91 |
| Van Kollem en Broekman Effecten BV | Amsterdam – NL | – | 99.91 |
| Wereldeffect BV | Amsterdam – NL | – | 99.91 |
| **KBL EPB: subsidiaries that are not fully consolidated[1]** | | | |
| Merck Finck Beteiligungs GmbH | Munich – DE | – | 99.91 |
| Plateau Real Estate Limited | Douglas – IM | – | 99.91 |
| snc KBL France Courtage Assurances | Paris – FR | – | 99.91 |
| sci KB Luxembourg Immo II (Monaco) | Monaco – MC | – | 99.91 |
| Steubag G Betriebswirtschafts und Bankendienstleistungsberatung in Rheinland-Pfalz mbH | Mainz – DE | – | 99.91 |
| **KBL EPB: joint subsidiaries that are proportionately consolidated** | | | |
| – | | | |
| **KBL EPB: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| Cogere SA | Luxembourg – LU | – | 49.96 |
| Gécalux sarl | Munsbach – LU | – | 49.96 |
| **KBL EPB: companies accounted for using the equity method** | | | |
| EFA Partners SA | Luxembourg – LU | – | 52.65 |
| European Fund Administration SA | Luxembourg – LU | – | 52.65 |
| European Fund Administration France sas | Paris – FR | – | 52.65 |
| **KBL EPB: companies not accounted for using the equity method[1]** | | | |
| Damsigt scp | Utrecht – NL | – | 24.56 |
| TVM GmbH | Grünwald – DE | – | 31.22 |
| TVM KG | Grünwald – DE | – | 21.44 |
| **KBC Group NV: subsidiaries that are fully consolidated** | | | |
| Gebema NV | Mortsel – BE | 0461.454.338 | 100.00 |
| KBC Group NV | Brussels – BE | 0403.211.479 | 100.00 |
| KBC Bank NV | Brussels – BE | 0462.920.226 | 100.00 |
| KBC Global Services NV | Brussels – BE | 0465.746.488 | 100.00 |
| KBC Insurance NV | Brussels – BE | 0403.552.563 | 100.00 |
| Kredietbank SA Luxembourgeoise | Luxembourg – LU | – | 99.91 |
| Kredietcorp SA | Luxembourg – LU | – | 100.00 |
| **KBC Group NV: subsidiaries that are not fully consolidated[1]** | | | |
| Fidabel NV | Brussels – BE | 0403.211.479 | 100.00 |
| ValueSource NV | Brussels – BE | 0472.685.453 | 100.00 |
| ValueSource Technologies Private Limited | Alwarpet – IN | – | 99.99 |
| **KBC Group NV: joint subsidiaries that are proportionately consolidated** | | | |
| – | | | |
| **KBC Group NV: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| – | | | |
| **KBC Group NV: companies accounted for using the equity method** | | | |
| – | | | |
| **KBC Group NV: companies not accounted for using the equity method[1]** | | | |
| – | | | |

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

2 Real estate certificates and companies whose results are not allocated to the group.

# Company annual accounts

La Gamme d'Amour, James Ensor

## BACKGROUND

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

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

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

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

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

### COMPANY BALANCE SHEET AFTER PROFIT APPROPRIATION, ACCORDING TO B-GAAP

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Fixed assets | 8 130 | 9 532 |
| Financial fixed assets | 8 130 | 9 532 |
| Associated companies | 8 119 | 9 521 |
| Participating interests | 7 816 | 9 266 |
| Amounts receivable | 303 | 254 |
| Companies linked by participating interests | 11 | 11 |
| Participating interests | 1 | 1 |
| Amounts receivable | 10 | 10 |
| Current assets | 1 784 | 1 289 |
| Stocks and contracts in progress | 0 | 11 |
| Amounts receivable within one year | 68 | 76 |
| Trade debtors | 36 | 43 |
| Other amounts receivable | 32 | 33 |
| Investments | 1 601 | 1 115 |
| Own shares | 785 | 1 020 |
| Other investments | 815 | 95 |
| Cash at bank and in hand | 100 | 70 |
| Deferred charges and accrued income | 15 | 14 |
| **Total assets** | **9 914** | **10 822** |
| Capital and reserves | 7 852 | 8 271 |
| Capital | 1 235 | 1 235 |
| Subscribed capital | 1 235 | 1 235 |
| Share premium account | 4 149 | 4 158 |
| Reserves | 1 100 | 1 335 |
| Legal reserve | 123 | 123 |
| Reserves not available for distribution | 787 | 1 021 |
| Untaxed reserves | 190 | 189 |
| Reserves available for distribution | 0 | 0 |
| Profit brought forward | 1 369 | 1 543 |
| Provisions and deferred taxes | 10 | 7 |
| Provisions for liabilities and charges | 10 | 7 |
| Creditors | 2 052 | 2 543 |
| Amounts payable at more than one year | 628 | 858 |
| Financial debts | 628 | 858 |
| Non-subordinated bonds | 101 | 351 |
| Credit institutions | 20 | 0 |
| Other loans | 507 | 507 |
| Amounts payable within one year | 1 352 | 1 645 |
| Amounts payable at more than one year falling due within the year | 20 | 20 |
| Financial debts | 35 | 199 |
| Other loans | 35 | 199 |
| Trade debts | 1 | 13 |
| Amounts owed because of taxation, remuneration and social security charges | 84 | 66 |
| Taxes | 24 | 0 |
| Remuneration and social security charges | 60 | 66 |
| Other creditors | 1 212 | 1 346 |
| Accrued charges and deferred income | 71 | 40 |
| **Total liabilities** | **9 914** | **10 822** |

## COMPANY PROFIT AND LOSS ACCOUNT, ACCORDING TO B-GAAP

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Charges | | |
| A Interest and other debt charges | 74 | 62 |
| B Other financial charges | 5 | 3 |
| C Services and sundry goods | 42 | 80 |
| D Remuneration, social security charges and pensions | 250 | 294 |
| F Depreciation, amortisation, amounts written down and provisions for liabilities and charges | 2 | 0 |
| G 1) Write-downs on financial fixed assets | 6 | 18 |
| 2) Write-downs on current assets | 0 | 14 |
| I Losses on sale of financial fixed assets | 0 | 0 |
| K Taxes | 52 | 37 |
| L Profit for the period | 2 258 | 2 425 |
| **Total** | **2 689** | **3 933** |
| N Profit for the period available for appropriation | 2 258 | 2 425 |
| Income | | |
| A Income from financial fixed assets | 2 146 | 2 504 |
| B Income from current assets | 45 | 54 |
| C Other financial income | 9 | 3 |
| D Operating income | 292 | 364 |
| G 1) Reversals of write-downs on financial fixed assets | 3 | 3 |
| H Reversals of provisions for liabilities and charges | 0 | 2 |
| I 2) Gains on sale of financial fixed assets | 192 | 3 |
| J Extraordinary income | 1 | 0 |
| [M Transfer from untaxed reserve] | 0 | 0 |
| **Total** | **2 689** | **2 933** |

## APPROPRIATION ACCOUNT, ACCORDING TO B-GAAP

| In millions of EUR | 31-12-2006 | 31-12-2007 |
|---|---|---|
| Profit to be appropriated | 3 334 | 3 794 |
| Profit for the period available for appropriation | 2 258 | 2 425 |
| Profit brought forward from the previous financial year | 1 076 | 1 369 |
| Appropriations to capital and reserves | 778 | 933 |
| To the legal reserve | 0 | 0 |
| To other reserves | 778 | 933 |
| Profit (Loss) to be carried forward | 1 369 | 1 543 |
| Profit to be paid out | 1 187 | 1 318 |
| Dividends | 1 168 | 1 295 |
| Directors' entitlements | 1 | 1 |
| Other parties entitled to a share in profit, employee profit-sharing | 18 | 22 |

It will be proposed to the general meeting of shareholders that the profit for appropriation of 3 794 million euros be appropriated as shown in the table (column 31-12-2007). If this proposal is approved, the gross dividend will come to 3.78 euros per KBC Group NV share entitled to dividend for the 2007 financial year. Less the withholding tax of 25%, the net dividend will come to 2.835 euros per ordinary share. For VV shares, withholding tax amounts to 15%, and the net dividend will in this case come to 3.2130 euros.

On 31 December 2007, 342 568 138 shares were entitled to dividend (out of a total of 355 115 321 shares). In calculating the number of shares entitled to dividend, the following was taken into account:

- the 110 871 shares issued for the capital increase for personnel in 2007 will only be entitled to dividend from the 2008 financial year;
- subject to approval: dividends on all treasury shares repurchased under the 2007 buyback programme (10 436 312 shares on 31 December 2007) and on 2 000 000 treasury shares repurchased under the 2008 buyback programme will be suspended.

# NOTES TO THE COMPANY ANNUAL ACCOUNTS (B-GAAP)

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

### FINANCIAL FIXED ASSETS, ACCORDING TO B-GAAP

| In millions of EUR | Participating interests in associated companies | Amounts receivable from associated companies | Participating interests in companies linked by participating interests | Amounts receivable from companies linked by participating interests |
|---|---|---|---|---|
| Carrying value at 31-12-2006 | 7 816 | 303 | 1 | 10 |
| Acquisitions in 2007 | 1 500 | 1 | 0 | 0 |
| Disposals in 2007 | -43 | -50 | 0 | 0 |
| Other changes in 2007 | -7 | 0 | 0 | 0 |
| **Carrying value at 31-12-2007** | **9 266** | **254** | **1** | **10** |

KBC Group NV's participating interests in associated companies comprise mainly the shareholdings in KBC Bank NV (99.99%), KBC Insurance NV (99.99%), Kredietbank SA Luxembourgeoise (KBL EPB, 91.49% – excluding the KBL EPB shares held by Kredietcorp SA), KBC Global Services NV (formerly KBC Exploitatie NV, 99.99%), KBC Asset Management NV (48.14%) and KBC Real Estate NV (formerly Almafin NV, 26.82%). The main changes compared with year-end 2006 relate to the subscription to a capital increase carried out at KBC Bank NV (1 500 million euros) and at ValueSource NV (500 012 euros), the liquidation of Royal Oak SA and Winkelgalerij Champagne and the sale of Gevafin SA.

The amounts receivable from associated companies related mainly to a subordinated perpetual loan of 250 million euros to KBC Bank NV. Movements since 31 December 2006 relate to the increase in the amounts receivable from KBC Bank NV owing to the conversion of 17 105 MCBs into an equal number of KBC Group NV shares (+1 million euros) and the repayment of the loan granted to Almafin NV (-49.5 million euros).

Participating interests in companies linked by participating interests are accounted for by the investment in ARDA IMMO NV.

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

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

### CHANGES IN CAPITAL AND RESERVES, ACCORDING TO B-GAAP

| In millions of EUR | 31-12-2006 | Capital increase for staff | Conversion of MCBs and exercise of warrants | Repurchase and cancellation of own shares | Exercise of options | Retained profit | 31-12-2007 |
|---|---|---|---|---|---|---|---|
| Capital | 1 235 | 0 | 0 | 0 | 0 | 0 | 1 235 |
| Share premium account | 4 149 | 8 | 1 | 0 | 0 | 0 | 4 158 |
| Reserves | 1 100 | 0 | 0 | 287 | -52 | 0 | 1 335 |
| Profit (Loss) brought forward | 1 369 | 0 | 0 | -985 | 52 | 1 108 | 1 543 |
| **Capital and reserves** | **7 852** | **8** | **1** | **-698** | **0** | **1 108** | **8 271** |

The changes in capital and the share premium account are detailed below.

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

At year-end 2007, the company's issued share capital amounted to 1 235 156 370 euros. The share capital is fully paid up and increased by 444 868 euros during the course of the financial year.
On 31 December 2007, it was represented by 355 115 321 shares. The number of VV strips issued came to 55 481 633 at that time. Of the 127 976 shares issued in 2007, 110 871 will only be entitled to dividend from the 2008 financial year. Moreover, the dividend on treasury shares repurchased under the 2007-2009 buyback programme will be suspended (subject to approval by the General Meeting of Shareholders).

### CHANGES IN CAPITAL AND THE SHARE PREMIUM ACCOUNT IN 2006 AND 2007, ACCORDING TO B-GAAP

| In EUR | Date | Capital | Share premium account | Number of shares |
|---|---|---|---|---|
| Contribution of 1998–2008 MCBs | 31-03-2006 | 1 234 296 971 | 4 140 138 914 | 366 595 147 |
| Cancellation of own shares | 27-04-2006 | 1 234 296 971 | 4 140 138 914 | 363 095 147 |
| Contribution of 1998–2008 MCBs | 29-06-2006 | 1 234 300 527 | 4 140 208 609 | 363 096 193 |
| Contribution of 1998–2008 MCBs | 27-09-2006 | 1 234 306 161 | 4 140 319 015 | 363 097 850 |
| Capital increase for staff | 29-12-2006 | 1 234 704 114 | 4 148 451 301 | 363 214 895 |
| Contribution of 1998–2008 MCBs | 29-12-2006 | 1 234 711 502 | 4 148 596 088 | 363 217 068 |
| Contribution of 1998–2008 MCBs | 30-03-2007 | 1 234 732 276 | 4 149 003 198 | 363 223 178 |
| Cancellation of own shares | 27-04-2007 | 1 234 732 276 | 4 149 003 198 | 354 993 455 |
| Contribution of 1998–2008 MCBs | 29-06-2007 | 1 234 751 743 | 4 149 375 478 | 354 999 049 |
| Contribution of 1998–2008 MCBs | 28-09-2007 | 1 234 767 668 | 4 149 680 010 | 355 003 625 |
| Capital increase for staff | 28-12-2007 | 1 235 153 499 | 4 158 143 903 | 355 114 496 |
| Contribution of 1998–2008 MCBs | 31-12-2007 | 1 235 156 370 | 4 158 198 806 | 355 115 321 |

The main changes in 2007 are as follows:

- As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, 110 871 new VV shares were issued that were reserved exclusively for the personnel of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 79.82 euros and will be blocked for two years. Through this capital increase, the group aims to strengthen its ties with personnel. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.
- Further, during the course of the financial year, 17 105 new VV shares were created through the contribution of an equal number of subordinated 1998-2008 MCBs redeemable in KBC Group NV shares. At year-end 2007, there were a total of 2 589 347 1998–2008 MCBs in circulation (for a nominal amount of 181 million euros, with a base rate of 3.5% and a maturity date of 30 November 2008) that had not yet been contributed to the capital of KBC Group NV. The holders of these bonds have the right until 30 November 2008 to request that their MCBs be converted according to a ratio of one new KBC Group NV share for one MCB. MCBs that have not been contributed by their holders will be converted automatically into new KBC Group NV shares at maturity. This will result in the number of VV shares increasing by 2 589 347.
- At the General Meeting of Shareholders on 27 April 2007, 8 229 723 shares, which had been repurchased in 2006, were cancelled. This cancellation was charged entirely to the reserve not available for distribution.

The authorisation to increase capital may be exercised until 17 June 2012 for an amount of 199 614 169 euros. Consequently, based on a par value of 3.48 euros a share, a maximum of another 57 360 393 new KBC Group NV shares can be issued under this authorisation.

## Note 4: Shareholders

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

### SHAREHOLDER STRUCTURE (NOTIFICATIONS IN ACCORDANCE WITH THE ACT OF 2 MARCH 1989)

| | Date of notification | Address | Number of KBC shares (as a % of the sum at the time of notification of the outstanding number of shares and MCBs) | Number of MCBs |
|---|---|---|---|---|
| KBC Ancora Comm.VA (formerly Almancora) | August 2007 | 5 Philipssite, box 10, 3001 Leuven, Belgium | 82 216 380 (23%) | 0 |
| Cera CVBA | August 2007 | 5 Philipssite, box 10, 3001 Leuven, Belgium | 25 286 621 (7%) | 0 |
| MRBB CVBA | March 2005 | 40 Diestsevest, 3000 Leuven, Belgium | 42 562 665 (12%) | 0 |
| Other core shareholders | March 2005 | C/o Ph. Vlerick, 2 Ronsevaalstraat, 8510 Bellegem, Belgium | 42 715 838 (12%) | 0 |
| KBC group companies | August 2007 | 2 Havenlaan, 1080 Brussels, Belgium | 10 796 063 (3%) | 0 |

### SHAREHOLDER STRUCTURE ON 31-12-2007 (NOTIFICATION IN ACCORDANCE WITH THE BELGIAN COMPANIES CODE)

| | Address | Number of KBC shares |
|---|---|---|
| Assurisk SA | 8-10 avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg | 300 |
| KBC Bank NV | 2 Havenlaan, 1080 Brussels, Belgium | 3 921 645 |
| KBC Investments Limited | 111 Old Broad Street, EC2N 1FP London, United Kingdom | 42 876 |
| KBC Securities NV | 12 Havenlaan, 1080 Brussels, Belgium | 2 |
| VITIS Life Luxembourg SA | 7 boulevard Royal, postbox 803, 2018 Luxembourg, Grand Duchy of Luxembourg | 2 500 |
| Total | | 3 967 323 |
| *As a percentage of the total number of shares* | | *1.1%* |

Information on (changes in) KBC shares held by KBC Group NV is provided in 'Shareholder information', in the 'KBC share in 2007' table, under the heading 'Share buyback plan and changes in the number of KBC Group NV treasury shares'. The average par value of the KBC share came to 3.48 euros during 2007.

### KBC GROUP NV OWN SHARES, 31-12-2007

| | Address | Number of KBC shares |
|---|---|---|
| KBC Group NV | 2 Havenlaan, 1080 Brussels, Belgium | 11 474 207 |

## Note 5: Balance sheet

'Investments' came to 1 115 million euros at year-end 2007. The year-on-year decrease (486 million euros) resulted from the fall in term investments (720 million euros) and rise in 'own shares' (235 million euros, accounted for by the 1-billion-euro repurchase of shares under the 2007 buyback programme, the 0.7 billion euros written off on the cancellation of 8 229 723 shares, and the 52-million-euro sale of shares under the stock option plan).

On balance, 'amounts payable at more than one year' rose by 229 million euros, mainly on account of the issue by KBC Group NV of a Floating Rate Note for 250 million euros.

'Financial debts at more than one year' went up by 165 million euros, primarily on account of an increase in the issue of commercial paper. The main component of the 'other creditors' heading relates to dividends to be paid.

## Note 6: Profit and loss account

Under a co-operation agreement in the form of a cost-sharing structure, KBC Group NV employs 3 822 individuals on behalf of group companies. This cost-sharing structure encompasses ICT, communication, marketing, market research and logistics. The total cost incurred for these services amounted to 350 million euros, divided up among the participants according to objective criteria.

KBC Group NV made a net profit of 2 425 million euros in 2007. The main income items were dividend receipts totalling 2 491 million euros from KBC Bank, KBC Insurance, KBC Asset Management, KBL EPB and Gebema. The 363-million-euro increase on 2006 is primarily attributable to the higher dividend paid by KBL EPB.

The main expense items (aside from the expenses incurred for the cost-sharing structure) were debt-service charges and costs stemming from acquisitions and external communication.

## Note 7: Auditor's remuneration

In 2007, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 74 657 euros for standard audit services. Remuneration paid for non-audit services came to 297 136 euros, viz:
- other certifications: 7 064 euros;
- other non-audit assignments: 290 072 euros.

## Note 8: Conflicts of interest

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

## Note 9: Share buyback programmes

Please see the 'Group structure and strategy' section under the heading 'Financial targets and share buyback programmes'.

# Additional information

La Gamme d'Amour, James Ensor

## GLOSSARY OF RATIOS USED

| | |
|---|---|
| Basic earnings per share | [profit after tax, attributable to equity holders of the parent] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares]. |
| CAD ratio (banking) | [regulatory capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management' section. |
| Combined ratio (non-life insurance) | [net claims incurred / net earned premiums] + [net expenses / net written premiums]. |
| Cost/income ratio | [operating expenses of the banking business] / [total income of the banking business]. The banking business is defined as the sum of the banking business and the European private banking business. |
| Cover ratio | [individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment. |
| Diluted earnings per share | [profit after tax, attributable to equity holders of the parent, adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares, plus the dilutive effect of options and non-mandatorily convertible bonds]. |
| Dividend per share | [amount of dividend paid out] / [number of shares entitled to dividend at period-end]. The net dividend per share is net of withholding tax on shares. |
| Equity market capitalisation | [closing price of KBC share] x [number of ordinary shares]. |
| Equity per share | [parent shareholders' equity] / [number of ordinary shares and mandatorily convertible bonds, less treasury shares (at period-end)]. |
| Gearing ratio | [sum of the consolidated equity of KBC Bank, KBC Insurance, KBL EPB, the remaining former Gevaert group companies and KBC Global Services (formerly KBC Exploitatie)] / [consolidated equity of KBC group]. |
| Loan loss ratio | [net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section. |
| Non-performing ratio | [amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio]. |
| Return on allocated capital for a particular business unit | [profit after tax (including minority interests) of a business unit, adjusted to take account of allocated capital instead of actual capital] / [average allocated capital of the business unit]. The net profit of a business unit is the sum of the net profit made by all the companies in that business unit, adjusted to take account of allocated central overheads and the funding cost of goodwill paid. The capital allocated to a business unit is based on a tier-1 ratio of 8% for the banking activities and a solvency ratio of 200% for the insurance activities. For the banking activities, the allocated tier-1 capital comprises core capital (85%) and hybrid capital (15%). For the insurance activities, the allocated solvency capital comprises solely core capital. In calculating the return on allocated capital, only core capital is taken into account in the denominator. |
| Return on equity | [profit after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. |
| Solvency ratio (group) | [solvency capital available to the KBC group] / [minimum regulatory solvency capital of KBC Bank, KBL EPB, and the holding-company activities (net of intercompany transactions between these entities) and KBC Insurance combined]. |
| Solvency ratio (insurance) | [available solvency capital] / [minimum regulatory solvency capital]. For detailed calculations, see the 'Value and risk management' section. |
| Tier-1 ratio (banking) | [tier-1 capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management' section. |

## BREAKDOWN BY COUNTRY OF THE UNDERLYING RESULTS OF THE CEER BUSINESS UNIT

### UNDERLYING RESULTS OF THE CEER BUSINESS UNIT BY COUNTRY

| | Czech Republic and Slovakia | | Hungary | | Poland | | Russia (6 months) | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 671 | 790 | 223 | 259 | 213 | 254 | – | 56 | -106 | -121 |
| Gross earned premiums, insurance | 269 | 305 | 83 | 90 | 592 | 584 | – | 0 | 15 | 39 |
| Dividend income | 2 | 2 | 1 | 0 | 3 | 3 | – | 0 | 0 | 0 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 92 | 38 | 107 | 112 | 41 | 44 | – | 1 | -3 | 13 |
| Net realised gains from available-for-sale assets | 11 | 7 | 4 | 2 | 14 | 15 | – | 0 | 0 | 3 |
| Net fee and commission income | 221 | 231 | 107 | 112 | -17 | -25 | – | 7 | -1 | -1 |
| Other net income | 81 | 47 | 11 | 11 | 58 | 41 | – | 2 | 4 | -1 |
| **Total income** | **1 347** | **1 420** | **535** | **587** | **904** | **916** | **–** | **67** | **-91** | **-69** |
| Operating expenses | -654 | -665 | -298 | -310 | -377 | -399 | – | -48 | -9 | -68 |
| Impairment | -50 | -52 | -99 | -47 | 13 | 13 | – | -2 | -1 | -3 |
| on loans and receivables | -54 | -52 | -98 | -43 | 7 | 15 | – | -2 | -1 | -3 |
| on available-for-sale assets | 0 | 0 | 0 | -1 | 0 | 0 | – | 0 | 0 | 0 |
| Gross technical charges, insurance | -193 | -170 | -62 | -64 | -356 | -329 | – | 0 | -32 | -11 |
| Ceded reinsurance result | -6 | -4 | 0 | 0 | -37 | -26 | – | 0 | 0 | -1 |
| Share in results of associated companies | 2 | 7 | 1 | 3 | 0 | 0 | – | 0 | 31 | 41 |
| **Profit before tax** | **446** | **536** | **77** | **169** | **148** | **176** | **–** | **16** | **-102** | **-111** |
| Income tax expense | -99 | -117 | -20 | -41 | -12 | -31 | – | -4 | 38 | 54 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | – | 0 | 0 | 0 |
| **Profit after tax** | **347** | **419** | **58** | **127** | **136** | **145** | **–** | **12** | **-64** | **-57** |
| attributable to minority interests | 1 | 1 | 0 | 0 | 0 | 0 | – | 0 | 50 | 27 |
| **attributable to equity holders of the parent** | **346** | **417** | **58** | **127** | **136** | **145** | **–** | **12** | **-114** | **-83** |
| Banking | 317 | 384 | 52 | 117 | 119 | 103 | – | 12 | -87 | -75 |
| Insurance | 29 | 33 | 6 | 10 | 17 | 41 | – | 0 | -27 | -8 |
| Risk-weighted assets, banking (period-end) | 14 182 | 17 126 | 5 241 | 5 326 | 3 936 | 5 806 | – | 3 014 | – | – |
| Allocated capital (period-end) | 1 082 | 1 289 | 393 | 397 | 414 | 573 | – | 205 | – | – |
| Return on allocated capital | 31% | 31% | 8% | 32% | 27% | 23% | – | – | – | – |
| Cost/income ratio, banking | 57% | 53% | 63% | 59% | 72% | 70% | – | 72% | – | – |
| Combined ratio, non-life insurance | 103% | 96% | 100% | 93% | 98% | 96% | – | – | – | – |

# BREAKDOWN BY ACTIVITY OF THE UNDERLYING RESULTS OF THE MERCHANT BANKING BUSINESS UNIT

## UNDERLYING RESULTS OF THE MERCHANT BANKING BUSINESS UNIT BY ACTIVITY

| | Corporate banking | | Market activities | |
|---|---|---|---|---|
| In millions of EUR | 2006 | 2007 | 2006 | 2007 |
| Net interest income | 1 017 | 1 105 | 0 | 0 |
| Gross earned premiums, insurance | 318 | 290 | 0 | 0 |
| Dividend income | 12 | 21 | 0 | 0 |
| Net (un)realised gains from financial instruments at fair value through profit or loss | 47 | -25 | 945 | 819 |
| Net realised gains from available-for-sale assets | 27 | -2 | 0 | 0 |
| Net fee and commission income | 82 | 90 | 204 | 307 |
| Other net income | 101 | 136 | 0 | 0 |
| **Total income** | **1 603** | **1 614** | **1 149** | **1 126** |
| Operating expenses | -498 | -537 | -736 | -776 |
| Impairment | 3 | -48 | -1 | -8 |
| on loans and receivables | 4 | -4 | 0 | -2 |
| on available-for-sale assets | -1 | -43 | -1 | -5 |
| Gross technical charges, insurance | -198 | -169 | 0 | 0 |
| Ceded reinsurance result | -29 | -32 | 0 | 0 |
| Share in results of associated companies | 0 | 0 | 1 | 2 |
| **Profit before tax** | **881** | **828** | **413** | **344** |
| Income tax expense | -213 | -182 | -116 | -57 |
| Net post-tax income from discontinued operations | 0 | 0 | 0 | 0 |
| **Profit after tax** | **668** | **646** | **297** | **287** |
| attributable to minority interests | 93 | 88 | 2 | 2 |
| **attributable to equity holders of the parent** | **575** | **558** | **296** | **285** |
| Banking | 518 | 509 | 263 | 285 |
| Insurance | 57 | 49 | 33 | 0 |
| Risk-weighted assets, banking (period-end) | 49 593 | 54 655 | 10 300 | 18 575 |
| Allocated capital (period-end) | 3 460 | 3 795 | 700 | 1 263 |
| Return on allocated capital | 17% | 18% | 40% | 18% |
| Cost/income ratio, banking | 38% | 39% | 64% | 69% |
| Combined ratio, non-life insurance | 92% | 91% | – | – |

# CONTACT DETAILS AND FINANCIAL CALENDAR

Information on products, services and publications of the KBC group can be obtained from
the KBC-Telecenter on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.
Tel. + 32 78 152 153 (Dutch) or + 32 78 152 154 (French, English, German)
kbc.telecenter@kbc.be

Shareholders and the press can also contact KBC's Press Office and Investor Relations Office,
whose contact details appear in the 'Shareholder information' section, along with a financial calendar.

Editor-in-chief: Investor Relations – IRO, 2 Havenlaan, 1080 Brussels, Belgium
Sub-editing, translation, concept and design: Communication Division – CMM, 100 Brusselsesteenweg, 3000 Leuven, Belgium
Printer: Van der Poorten, 624 Diestsesteenweg, 3010 Leuven, Belgium
Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium
This annual report has been printed on environmentally-friendly paper.


KBC


L'ACCENT
MODES

## JAMES ENSOR (1860–1949)

Born in Ostend to an English father and a Belgian mother, James Ensor was one of the great innovators in Belgian art during the last quarter of the nineteenth century. Initially, he was influenced by the Impressionist movement, but quickly broke free of this style to develop symbolic art of his own, where masks, demons and other strange beings represented themes such as death, frustration and social criticism. With his personal vision of art, Ensor paved the way for expressionism and surrealism. His still-life paintings, portraits and bourgeois interiors, however, revealed the influence of the realist tradition.
In 1886, Ensor took up etching. Graphic art occupies a particular place in Ensor's oeuvre and presented him with a challenge. He wanted to promote it as art in its own right instead of having it treated as a subordinate art form. He was extremely successful in translating the pictorial strength of the painter's palette into his etchings. His graphic production also betrayed an exceptional talent for drawing. Ensor made a total of 133 etchings, in different but limited series.

KBC owns all but two of these series of etchings and has also now purchased two lithographic albums, *Les scènes de la vie de Jésus Christ* and *La Gamme d'Amour.*

## *La Gamme d'Amour*, 1929
## 22 lithographs and sheet music, 69/270, KBC collection

In 1906, the Lambotte-Protin family gifted Ensor a harmonium, on which he composed the music for *La Gamme d'Amour* in 1911, a ballet-pantomime for marionettes. His most extensive creative work, he wrote the scenario, composed all the music, and designed the costumes and decors himself.

The series of lithographs entitled *La Gamme d'Amour* is a significant addition to KBC's art collection. Accordingly, we have chosen a number of lithographs from this series for our annual report.