

Corporate
Social Responsibility Report ● 2005



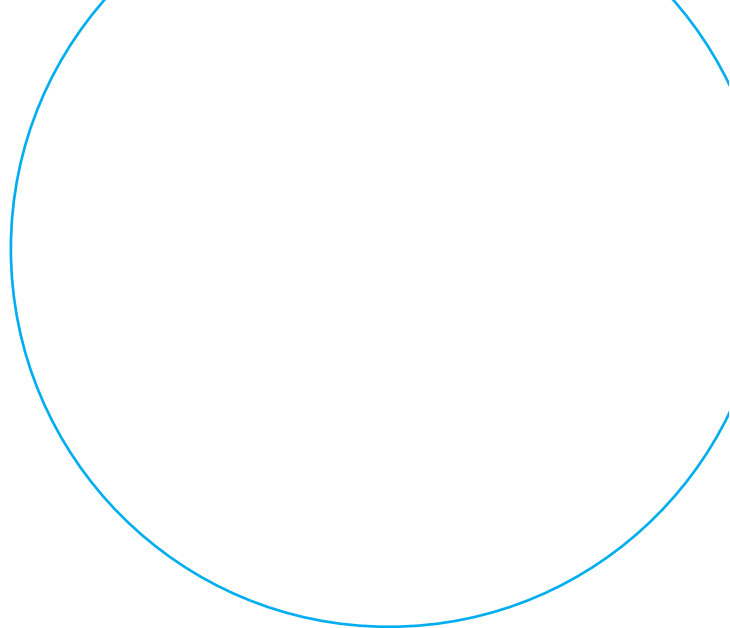


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● A word from our CEO



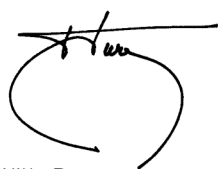
To our readers,

This is our second report on our performance in the various areas of corporate social responsibility (CSR). It has been prepared in accordance with the 2002 GRI guidelines and represents a balanced and reasonable presentation of our organisation's economic, environmental and social performance. We continue our commitment to enhance transparency on non-financial matters, set in motion in 2005 with the publication of our first CSR Report. Indeed, our initial reporting effort was an important step forward in communication to the outside world, given that our group has been at the forefront of CSR behaviour in various forms over the years. At the time, we felt that it was sensible to limit our scope to our Belgian operations in order to design a pragmatic reporting methodology. We were aware that the data provided therein covered just over half of our group, but we clearly stated that future editions of the report would extend coverage gradually, eventually encompassing our entire global operations.

To fulfil this ambition in part, we have broadened the scope of our reporting effort this year to include our Belgian and principal Central and Eastern European business entities. In Central and Eastern Europe, CSR as a business concept is relatively new, given that Western-style business culture is still in a youthful phase. However, certain CSR issues such as philanthropic deeds and employee rights have been around for much longer. Indeed, as the business sector in Central and Eastern Europe matures and as the new member states become increasingly integrated within the EU, the notion of CSR should take hold quite rapidly there.

At KBC, our strong presence in the banking, insurance and asset management markets of Central and Eastern Europe, where we are among the region's largest financial institutions, forms the perfect complement to the solid position we hold on our first home market, Belgium. Moreover, the timing of our reporting on the two regions is propitious, as we are in the process of implementing a new management structure to bolster the growing international flavour of our group. Steps have already been taken to harmonise our policies and processes and our ethical codes. Further measures are also being implemented to ensure that our employee practices and environmental standards throughout the group are brought into line with each other and with prevailing standards and practices. In this regard, our mission statement¹ serves as a common, group-wide theme and reflects our commitment to our stakeholders, and our *'Principles for Socially Responsible Business'* outlines our basic policy towards CSR in the various countries where we operate.

When André Bergen takes over as CEO in September 2006, he will be taking charge of a group that is in fine shape. We would therefore like to direct our thanks specifically to our employees for their untiring efforts over the past few years to make KBC a success. Our sincere thanks also go to our shareholders and our customers for the confidence they have placed and continue to place in KBC. But, rather than resting on our laurels, it is our ambition to further enhance our performance in future, particularly with regard to our Triple Bottom Line².



Willy Duron,
President of the Executive Committee of KBC Group

¹KBC's mission statement

'Through our customer-friendliness, efficiency, enterprising spirit and capacity for innovation, we will provide the best solutions for our customers, earn the loyalty of our employees, guarantee a high return to our shareholders and contribute towards the economic, social and cultural development of the community to which we belong.'

² This concept incorporates environmental and social performance with financial outcomes. It was devised by John Elkington, co-founder of the business consultancy SustainAbility, in his 1998 book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*



Intro_{duction}

● Reporting policy

The information presented in this report is based on data collected by means of detailed questionnaires sent to the various group entities covered herein, and relates to KBC's Principles for Socially Responsible Business (see Appendix II). As this is the first time we are publishing a consolidated report on our Belgian and Central and Eastern European operations, we currently do not have a centralised CSR information system in place. Hence, the data collected and reported herein is based on information available in KBC's 2005 Annual Report and via the above-mentioned questionnaires. The information garnered from these questionnaires has, in turn, been drawn on various sources and local information management systems, supported by on-site interviews with several of the sources responsible for the information provided. Consequently, there are some inherent limitations to the quality of the data reported herein: not all of the information is entirely accurate, but is based in part on best estimates, extrapolations and own calculations. However, we expect to increase the accuracy of the performance measures in future reports, as we continue to improve our data collection methodology. Moreover, for the first time, an external auditing company has been engaged to conduct an assurance review of the data provided in this report.

The report is drafted in accordance with the 2002 Global Reporting Initiative (GRI) guidelines, as well as the GRI Financial Services Sector Supplement on Social Performance¹, as we feel that these standards, though not compulsory, provide the necessary structure to ensure transparency and clarity, as well as comparability over time. The GRI content index on page 64 enables a quick look-up of the relevant indicators that are covered in this report. Additionally, in-house environmental performance has been measured and presented according to the VfU Indicators², which are increasingly being applied within the financial sector to complement the GRI principles. Methodological supplements have also been provided as separate appendices for the chapters on employees (Appendix V) and environment (Appendix VI).

● Scope of this report

This report covers KBC's CSR commitments and accomplishments in the two home markets of Belgium and Central and Eastern Europe (CEE): the Czech Republic and Slovakia (ČSOB Group), Hungary (K&H Group) and Poland (Kredyt Bank Group and WARTA Group). Although KBC is also present in Slovenia via its minority stake in Nova Ljubljanska banka (NLB), NLB does not qualify as a subsidiary in the strict sense of the term. Hence, the Slovenian operations are not reported.

Unless otherwise stated, the data and information provided cover the 2005 calendar year. As shown in the tables and charts below, the majority of our operations is now covered by this report, both in terms of profit contribution (79%) and as regards social capital (88% of KBC employees). Future reports will extend the scope to the entire group. More information can be found in Appendix I and KBC's 2005 Annual Report (see www.kbc.com).

¹ cf. www.globalreporting.org

² Outlined in 'VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry', available at www.epifinance.com. See p. 53 (Chapter 6).

● KBC in figures

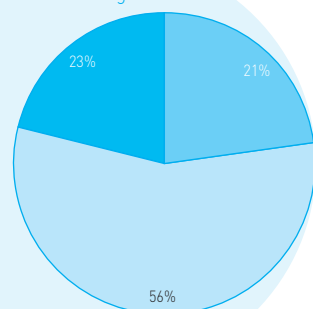
Key figures (in m EUR)	FY 2004 ³	FY 2005
Gross income	12 333	11 498
Profit before tax	2 345	3 369
Net Group profit	1 615	2 249
Total assets	285 163	325 801
Other		
Number of staff		Approx. 51 000
Number of customers		11 million

● KBC's geographical breakdown as at year-end 2005

	% of total assets	% of gross income	% of staff
Belgium	59	56	38
CEE	11	23	50
Rest of the world	30	21	12
Total	100	100	100

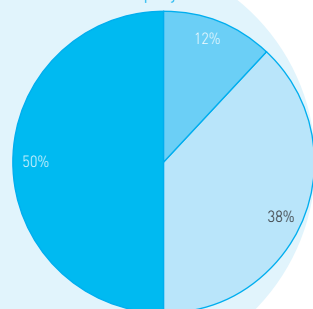
● CSR at KBC: key headlines

● Breakdown based on gross income



● CEE
● ROW
● Belgium

● Breakdown based on employees



● CEE
● ROW
● Belgium

General:

KBC is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central Europe - its two home markets - for its retail bancassurance and asset management businesses, as well as for the provision of services to business customers. The group is also active in a selection of other countries in Europe in private banking and the provision of services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions. More information regarding our operations is available on our group Web site, www.kbc.com. Belgium and CEE together account for more than 70% of KBC's gross income and total number of employees.

Corporate governance:

The KBC-Almanij merger of March 2005 led to a revamped corporate governance structure at the highest levels of KBC management. Within KBC's Board of Directors, there are four specific committees: the Audit Committee, the Nomination Committee, the Remuneration Committee and the Agenda Committee. The Board includes independent directors, one of whom chairs the Remuneration Committee. Moreover, the Chairman of the Board is not the same person as the President of the Executive Committee.

In accordance with the Belgian Corporate Governance Code, KBC's Corporate Governance Charter was published on the group Web site on 1 January 2006.

Business ethics:

KBC's codes of ethical behaviour and conduct apply across all the subsidiaries in Belgium and in Central and Eastern Europe. Compliance units have been set up in the main group companies in the two home markets, with a particular focus on anti-money-laundering, market abuse and other fraudulent activities.

At group level, KBC introduced specific policies on anti-bribery and human rights in 2005. A strict lending policy is in place throughout all group companies, which takes into account environmental and social issues. Moreover, KBC has a concrete, overarching policy with respect to the investment in and financing of manufacturers of controversial weapons, including anti-personnel mines, cluster bombs and weapons containing depleted uranium. KBC actively participated in stakeholder dialogue, including various non-governmental organisations (NGOs) in 2005 on subjects such as cluster bombs and human rights.

³ Pro forma - excludes the application of IAS 32/39 and IFRS 4.

Employees:

The total number of employees at KBC remained more or less stable over the 2005 calendar year. The average KBC employee is 39.5 years old and has 11.8 years experience in the group, implying a high degree of loyalty to the company. Moreover, more than 50% of the workforce is female. The number of women in senior management went up almost 5% from 2004 to 2005, and now represent 28% of senior managers, while women make up 40% of junior/middle management.

More than two-thirds of the workforce are white-/blue-collar staff (employees in administrative functions), while almost 30% are at junior/middle management level, and the majority of staff is employed on a permanent contract. Although full-time employees are still in the majority, the number of employees electing to work part time rose 9% over 2005 and now represents 17% of the total headcount.

Employee satisfaction is taken seriously at KBC and various incentives to ameliorate the work-life balance, such as teleworking, have been implemented. Additionally, KBC takes career development seriously and is therefore a strong proponent of in-house training and spends considerable time and money in continually designing and providing courses that are both useful and necessary for employees to enhance their skills and for their further career development. In 2005, KBC spent nearly 45 million euros on training in the two home markets, up almost 16% on the amount in 2004.

Environment:

KBC continues to support ARGUS, the independent provider of information on environment in Belgium, founded by KBC in 1970.

KBC has introduced more specific objectives with regard to the more efficient use of energy, water, paper, as well as reduction in waste and emissions. These are being implemented during the course of 2006, and includes the replacement of older computer hardware with more energy-efficient models, further efforts towards separate waste collection and recycling, reducing emissions by encouraging employees to use public transport and increasing the use of video conferences as an alternative to business travel. Moreover, energy audits have been carried out or are planned in Central and Eastern Europe and improvements are being made to streamline the collection of data for reporting purposes in both home markets.

Role in society:

Customer service departments have been set up at almost all of the KBC entities covered in this report to handle customer-specific matters. Specific complaint-handling procedures are in place at all group companies, including electronic databases for employees to register and manage complaints, and the complaints themselves should be handled within 15 days of receipt. Recent customer satisfaction surveys have shown a very high degree of positive results in both home markets – the majority of customers appear to be satisfied with the products and services provided and would recommend KBC or its subsidiaries to their friends or acquaintances.

In Belgium and in Central and Eastern Europe, KBC provides specialised banking and insurance products and services for senior citizens and young people, and banking services for low-income citizens are also available in both home markets. Additionally, 14 sustainable and socially responsible investment (SRI) funds are currently offered by KBC for retail and institutional customers. The assets under management in KBC's socially responsible investment (SRI) funds grew more than threefold over the 2005 calendar year.

KBC continues to support philanthropic and cultural initiatives in both home markets, with a particular focus on community building, the (re-)integration of disadvantaged persons in society, health issues and help for the elderly and orphans. The total budget spent on such initiatives came to nearly 6 million euros in 2005. Moreover, volunteerism is continually encouraged at KBC, and a number of staff members in Belgium are involved in various microfinance projects designed and managed by the Belgian Raiffeisen Foundation.

● Sustainability indices and ratings



FTSE4Good

FTSE Group is delighted to confirm that KBC has been independently assessed according to the FTSE4Good criteria⁴, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalise on the benefits of responsible business practice. For more information, surf to www.ftse.com/Indices/FTSE4Good_Index_Series



Ethibel

In Spring 2006, KBC was selected for inclusion in the Ethibel Pioneer and Excellent Investment Registers and Sustainability Indices.

Based in Brussels, Belgium, Ethibel was established in 1992 and is a leading European screening company in the field of socially responsible investments (SRI). The Ethibel Investment Register is used as the basis for SRI products for a growing number of European banks, fund managers and institutional investors.



The Ethibel Sustainability Indexes combine a sound financial return with a positive impact on society by selecting the world's leading companies in terms of sustainability. Ethibel's methodology is based on the integration of two of the most significant aspects of corporate social responsibility: sustainable development and stakeholder involvement.

For more information on Ethibel and the Ethibel Investment Register, surf to www.ethibel.org.



Triodos Bank

KBC was selected by Triodos Bank, the Dutch ethical bank, in October 2005 to be included in its sustainable investment universe. Based on this universe, Triodos has designed socially responsible investment funds, such as the Triodos Values Funds in Belgium and the Triodos Meerwaarde Fonds in the Netherlands. These funds invest in carefully selected companies that have outperformed within their respective sectors with regard to sustainable development and the implementation of responsible social and environmental policies.

For more information on Triodos Bank, surf to www.triodos.com



Vigeo

Vigeo⁵ is an independent CSR rating agency, which, among other things, provides investor-solicited ratings on the performance of companies in the DJ Euro Stoxx 600 with regard to the six CSR domains reviewed by Vigeo.

● Date of KBC's rating: November 2005 - Market sector: Banks

CSR domains	Rating
Human Resources	+
Environment	=
Customers & suppliers	+
Corporate Governance	-
Community involvement	+
Human rights	+

(Criteria: ++ Leader, + Advanced, = Average, - Below average, -- Unconcerned)

Triodos Fund Management

Triodos Fund Management, a subsidiary of Triodos Bank⁶, offers detailed environmental and social analyses and profiles of major listed companies and sector studies to investment fund managers and other clients. KBC's CSR performance was analysed and rated as part of Triodos'

⁴ FTSE4Good indices are reviewed semiannually in September and March by the FTSE4Good Policy Committee. The research on and analysis of a company's CSR performance is undertaken by EIRIS (the Ethical Investment Research Service).

⁵ www.vigeo.com

⁶ www.triodos.com

sector study entitled 'Commercial Banks North and West Europe' (July 2005), which focused on 11 banks active in the region. In the overall ranking, KBC came sixth out of the 11. A summary of the individual scores are provided below.

● CSR theme

	Rating
Business ethics	+
Community	+
Corporate governance	-
Customers	-
Employees	+
Environment	+
Contractors	-

(N.B. + Above average, = Average, - Below average)

SAM

SAM Group⁷, an independent asset management company based in Switzerland with a focus on sustainability, conducts research to identify companies meeting sustainability criteria. Together with Dow Jones Indexes and STOXX, SAM has launched a family of sustainability indexes to track the performance of companies that are industry leaders in terms of sustainability. The results of the latest Benchmarking Report for KBC (September 2005) are summarised as follows:

● Company scores

	(in %)
Overall assessment	61
Economic dimension	72
Environment dimension	45
Social dimension	63

Société Générale/CoreRatings

In partnership with CoreRatings of the UK, a leading provider of CSR ratings, SG Pan-European Equity Research published a set of rankings according to CSR criteria (cf. 'SRI Impact on Valuations', April 2005). KBC's CSR scores are provided below:

● Company scores

	(in %)
Overall score	46
Environmental criteria	63
Social criteria (customers, human rights)	32
Employment	58
Corporate governance	35

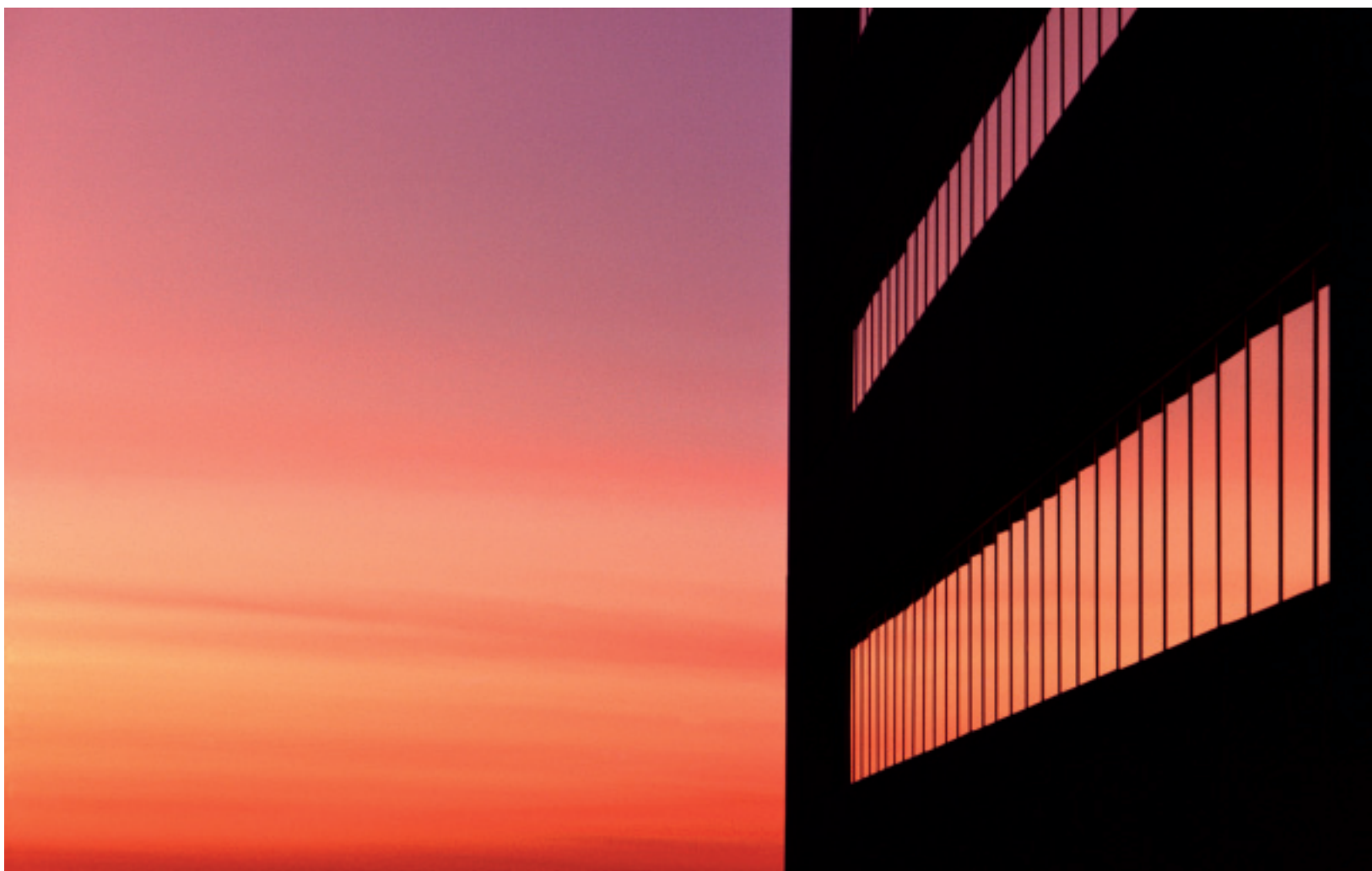
● Disclaimer

This report has been drawn up for the purpose of informing our stakeholders on KBC's performance and commitment with respect to corporate social responsibility.

Nothing in this document is intended to extend or amend KBC's existing obligations to its customers, shareholders, employees or other stakeholders.

All references to external Web links in this report other than those managed by KBC or its subsidiaries are provided purely for informational purposes only. KBC is not responsible for the reasonableness, accuracy or completeness of the information available on these Web sites, nor do their mention in this report constitute tacit approval or endorsement by KBC of such sites or the products or services offered therein. KBC accepts no liability whatsoever with regard to any such information that has been or will be provided by external parties via their Web sites.

⁷ www.sam-group.com



Business focus

● General

KBC Group is a multi-channel bancassurer with a focus on Belgium and Central and Eastern Europe for retail bancassurance and wealth management activities and services for SMEs and corporates (it also maintains a limited presence in a number of other European countries and around the world)¹.

KBC seeks to become an efficient bancassurer and wealth manager with a strong affinity for its customers, while ensuring that its employees are looked after. It also strives to identify with the various communities it serves by such means as using local company names, employing local management and adhering to socially responsible business practices in keeping with the standards of the relevant countries.

Moreover, it has elected to continue to pursue a standalone strategy. The group is firmly convinced that it can finance its own growth, pay a reasonable dividend and still maintain sufficient reserves to carry out add-on or bolt-on acquisitions when the right opportunities arise.

KBC's strategic objectives are centred on fortifying its existing presence in the home markets:

- In Central and Eastern Europe, for example, KBC will continue to develop its bancassurance model, encourage organic growth (this will include increasing the number of branches where necessary), expand its consumer lending activities and step up its services to businesses and top-drawer clientele. In the Belgian market, the group will seek to reinforce non-life insurance distribution and develop new 'longevity' insurance products, among other things. KBC will also continue to seek out opportunities for alliances in certain specialised lines of business (e.g., the existing co-operation with other banks in cross-border payments), with the object of generating economies of scale.
- Moreover, in Central and Eastern Europe, the group intends to strengthen its position by buying out minority shareholders where possible, and will consider new add-on acquisitions as and when opportunities arise. Among other things, it is contemplating acquiring a second bank in Poland or another non-life insurance company in Hungary. KBC may also venture into new markets in Central and Eastern Europe – i.e. in EU accession candidate countries – either by means of acquisitions or greenfield operations. In Western Europe, lastly, the group will continue to seek out opportunities for strengthening its private banking business by making acquisitions in certain countries.

Since KBC has enough resources to fund its new strategy, it has decided to launch a share buy-back programme to the tune of 1 billion euros in 2006 (more details are provided below).

¹ See Appendix I A.

KBC in Belgium

At the end of 2005, KBC's banking network entailed 946* branches in Belgium. The Belgian retail market is also catered for by 723* independent agents working under the umbrella of the retail savings bank, Centea, a subsidiary of KBC Bank. Via these networks, the group caters for an estimated 3.3 million customers in Belgium.

In 2005, KBC had a share of around 21%* of the Belgian deposit market and a share of 22%* of the lending market. Over the past few years, KBC has built up a particularly strong position in investment funds, and leads the Belgian market with an estimated share of 33%.

KBC's insurance products are sold in Belgium through 'tied' insurance agents (584* agencies at year-end 2005) and through the banking network. In addition, the group offers the insurance products through independent brokers. Via these networks, KBC serves around 1.5 million insurance customers* in Belgium and, according to its own provisional estimates, was the second largest insurer in Belgium in 2005.

KBC's share of the Belgian insurance market came to an estimated 22% for life insurance and to 9% for non-life insurance (in each case, based on premium income) in 2005. Where life insurance is concerned, the group occupies a leading position in unit-linked products, boasting an estimated share of 63% of this market in 2005, compared to 8%* of the market in guaranteed-rate products. Where the main classes of non-life insurance are concerned, KBC Insurance's share of the Belgian market for third-party liability insurance for motor vehicles comes to 11%* and for fire and other property damage to 12%*.

(*According to KBC estimates.)

● KBC in Central and Eastern Europe

Over the past few years, KBC has built up an extensive banking network in Central and Eastern Europe. At year-end 2005, this network consisted of just over 800* branches operated by its ČSOB subsidiary in the Czech Republic and Slovakia, by K&H Bank in Hungary and Kredyt Bank in Poland. In the Czech Republic, ČSOB also sells its products through over 3 000* Czech post offices, and in 2005, renewed its contract with the Czech postal service until 2017.

At year-end 2005, the estimated market share (the average of the share of the lending market and the deposit market) came to 21% in the Czech Republic, to 7% in Slovakia, to 11% in Hungary, to 4% in Poland and to 42% in Slovenia. Given the increasing sophistication of these markets, there has been a shift to some extent from traditional deposits to off-balance-sheet products, such as investment funds. KBC also boasts a very strong position in the investment fund market in Central and Eastern Europe.

Since KBC aims to implement the bancassurance concept in this region, the group has an insurance business in each Central and Eastern European country in which it also has a banking subsidiary. In the Czech Republic, the group's insurer is ČSOB Pojišťovna, in Slovakia, ČSOB Poistovňa, in Poland, WARTA and WARTA Life and in Hungary, K&H Life and K&H General Insurance.

Through its banking and insurance network, KBC caters for nearly 5 million bank customers* and 3 million insurance customers* in the region. This customer base makes KBC one of the largest financial groups in Central and Eastern Europe*, a region whose economic growth is expected to outstrip Western Europe's significantly in the years ahead. If account is also taken of the fact that the penetration rate of banking and insurance products in this region is expected to catch up with levels in the West, it is clear that KBC's presence in Central and Eastern Europe has given it a strong motor to drive growth in the future*.

Moreover, 2005 marked the end of an important phase in the process of strengthening the group's corporate image in Central and Eastern Europe. At the close of the year, all Central and Eastern European (both banking and insurance) subsidiaries in which KBC has a majority shareholding adopted the same company logo, while keeping their own strong brand name.

(*According to KBC estimates.)



Corporate governance

● Introduction

The new guidelines on corporate governance for listed companies, as set out in the Belgian Code on Corporate Governance (referred to below as the 'Code'), came into effect in Belgium on 1 January 2006.

The Code seeks to ensure transparency in corporate governance by having every listed company in Belgium disclose information in two separate documents: the Corporate Governance Charter (the 'Charter'), which has to be published as from 1 January 2006, and the Corporate Governance chapter (the 'Chapter'), which has to be included in the annual report from 2006 on.

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 published its Charter on 1 January 2006 on its Web site: www.kbc.com.

The Chapter in the 2005 Annual Report (reproduced here in part) 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. In the event, it also provides reasons for any non-compliance with the Code. More comprehensive information is published in the Charter itself.

For the sake of clarity, this chapter focuses primarily on details pertinent to KBC Group NV since its creation through the merger of Almanij NV and the KBC Bank and Insurance Holding Company NV on 2 March 2005. The period concerned therefore covers the ten months from 2 March up to 31 December 2005.

Composition of the Board of Directors and its committees and the Executive Committee

The table shows the members of the Board of Directors, its committees and the Executive Committee on 31 December 2005. It also indicates the number of meetings attended by the members of the Board of Directors and its committees. In 2005 (after 2 March), the Board met eleven times, the Audit Committee five times, the Nomination Committee once, the Remuneration Committee three times and the Agenda Committee ten times. More details with respect to the career histories of the individual Directors may be found in the 2005 Annual Report and on the group Web site (www.kbc.com).

Name	Primary responsibility	End, current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee	Agenda Committee
Jan Huyghebaert	Chairman of the Board of Directors	2008	11		●				1*	3	10*
Philippe Vlerick	Deputy Chairman of the Board of Directors CEO and Managing Director, UCO NV and BIC Carpets NV	2009	8	●	●				1		
Willy Duron	President of the Executive Committee	2010	11				●*		1		10
André Bergen	Managing Director	2007	10				●				10
Etienne Verwilghen	Managing Director	2009	8				●				9
Paul Borghgraef	Director of various companies	2009	11	●	●						
Paul Bostoën	Managing Director, Christeys NV and Algimo NV	2009	11	●	●						
Luc Debaille	Chairman and Managing Director, Voeders Debaille NV	2009	11	●	●						
Jo Cornu	Director, Alcatel NV	2008	10	●		●			1	3*	
Noël Devisch	Chairman, MRBB CVBA	2009	11	●	●				1		
Frank Donck	Managing Director, 3D NV	2007	11	●	●						
Rik Donckels	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, President of the Executive Committee, Cera CVBA	2010	11	●	●				1		
Jean-Marie Gérardin	Lawyer and Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	2009	10	●	●						
Dirk Heremans	Professor at the Faculty of Economics and Applied Economics, Katholieke Universiteit Leuven (KUL)	2009	10	●		●			4		
Herwig Langohr	Professor of Finance and Banking, INSEAD	2007	11	●		●			5		
Christian Leysen	Chairman, Ahlers Group and AXE Investments	2009	10	●	●						
Xavier Liénart	Director of various companies and Director of Cera Beheersmaatschappij NV	2010	11	●	●						
Philippe Naert	Dean, Tias Business School at Tilburg University and the Technical University, Eindhoven	2009	11	●		●			5	3	
Luc Philips	Director	2009	11	●				5*	1		10
Theodoros Roussis	CEO, Ravago Plastics NV	2008	10	●	●				5		
Hendrik Soete	Managing Director, Aveve NV	2009	9	●	●						
Alain Tytgadt	Managing Director, Metalunion CVBA	2009	11	●	●						
Guido Van Roey	Member of management, InBev NV and Chairman of the Board of Directors, Cera Beheersmaatschappij NV	2009	11	●	●						
Germain Vantieghem	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	2010	11	●	●				4		
Jozef Van Waeyenberge	Director, De Eik NV	2009	11	●	●						
Marc Wittemans	Secretary-General, MRBB CVBA	2010	11	●	●				5		

* Chairman of the committee.

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

Meetings of the Board of Directors and its committees

Board of Directors

In 2005, since the creation of KBC Group NV, the Board has met eleven times. The meetings were always attended by virtually all members. Besides carrying out the activities required under the Belgian Companies Code, monitoring the monthly performance of the group companies, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2005:

- the group's strategy and organisational structure
- the establishment of the valuation rules
- the asset-liability management (ALM) limits
- the adoption of the Corporate Governance Charter
- the possible acquisitions
- the reports on the various areas of activity and/or group companies
- the repurchase of own shares
- the approval of the 2006 budget and the 2007-2008 annual plan.

The Executive Committee reported on a monthly basis on the trend in the results and the general course of business at KBC Bank, KBC Insurance, KBL and KBC Asset Management. In addition, considerable attention was also devoted at the Board meeting to the activities and results of the various subsidiaries of KBC Bank, KBC Insurance and KBL. The Board was informed whenever major developments occurred at those companies.

Audit Committee

The Audit Committee met five times in 2005, in the presence of the President of the Executive Committee and the internal auditor. Four meetings were also attended by the statutory auditors.

Two fixed agenda items were the reports from the Value and Risk Management Directorate and the internal auditor. The internal auditor's report provided an overview of recent audit reports, including the most important audit reports on Central Europe. The Committee also took cognisance of the implementation of the 2004 audit and inspection plans, and approved the 2005 audit plan. The Audit Committee was also informed of progress made with regard to the programme aimed at streamlining the workings of all the group's audit departments. The periodic reports from Value and Risk Management Directorate primarily covered developments regarding the ALM and market risks of the KBC group, but also covered developments in the area of risk management methodology (the development of operational risk management, credit risk management, methodology for quantitative credit risk management - QCR). The revised ALM and market risk limits were presented to the Audit Committee for its recommendation before being submitted to the Board of Directors for decision.

In mid-March 2005, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2004, and approved the press release. The Board of Auditors explained their key audit findings. During the Audit Committee meetings of 6 June, 31 August and 23 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. The half-year accounts as per 30 June were discussed at the meeting on 31 August.

During the course of the year, the Audit Committee also reviewed several special reports:

- inspection reports and new circulars from the Belgian Banking, Finance and Insurance Commission
- collateralised debt obligation structures in the KBC group
- assignments carried out by Ernst & Young with regard to KBC Financial Products
- results of the investigation into the workings of the audit committees
- the Chief Finance and Risk Officer's annual report.

The senior managers responsible were regularly invited to provide explanations on specific subjects under discussion.

Nomination Committee

Since the creation of KBC Group NV, the Nomination Committee has met once, for the purpose of appointing the members of the Executive Committee within the framework of the new organisational structure approved by the Board in December. At the same time, the Nomination Committee took cognisance of the appointment of those persons reporting directly to the Executive Committee. The Committee also discussed for the first time how to ensure continuity within the Executive Committee.

Remuneration Committee

During the course of 2005, the Remuneration Committee met three times with a view to, among other things, drawing up a proposal regarding the remuneration of members of the Board of Directors of KBC Group NV and its operating companies. In addition, the Committee examined the remuneration package of the Executive Committee members of KBC Group NV, KBC Bank and KBC Insurance, as well as of the Chairman of the Board and Luc Philips, in view of the considerable amount of time spent on and his responsibility for the ongoing monitoring of the business of the KBC group. A proposal was also submitted to the Board regarding the application of the contractual provisions on the departure of Emiel Celis as a member of the Executive Committee of KBC Insurance.

Agenda Committee

Since the creation of KBC Group NV in March 2005, the Agenda Committee has met ten 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, 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 the Board of Directors and its members 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 of the Companies Code. These regulations have been incorporated into the Corporate Governance Charter of KBC Group NV. No such conflicts of interest arose in KBC Group NV during the course of 2005.

Measures regarding insider dealing and market manipulation

In accordance with the European Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Belgian Royal Decree of 24 August 2005 to amend, with respect to the provisions regarding market manipulation, the Belgian 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. The principles of this code have been appended to the Charter of KBC Group NV. The dealing code enters into effect on 10 May 2006 pursuant to the implementing Belgian Royal Decree, published on 10 March 2006.

Remuneration

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

KBC Group NV was created on 2 March 2005 through the merger by acquisition of Almanij NV by the KBC Bank and Insurance Holding Company NV. The first financial year of KBC Group thus covers just ten months and should be considered a transitional year.

The remuneration or profit share awarded by KBC Group NV to its directors at the Annual Meeting of 28 April 2005 is a fixed remuneration that is deducted from the net profit for the financial year concerned.

This remuneration thus related to the offices that the directors had performed in Almanij NV and/or the KBC Bank and Insurance Holding Company NV in financial year 2004, prior to the Merger. This is also the case for the remuneration paid around this date by subsidiaries of KBC Group NV to some of its directors for offices held in those subsidiaries. Consequently, this remuneration paid by KBC Group NV in 2005 is not relevant as regards the disclosure required under the Belgian Corporate Governance Code in this report on the 2005 financial year. Indeed, this remuneration relates to duties performed by the directors on behalf of other companies, more specifically Almanij NV and/or KBC Bank and Insurance Holding Company NV and its subsidiaries. The first remuneration or profit share for services performed on behalf of KBC Group NV will therefore relate to its first financial year, 2005, and will only be paid out at its 2006 Annual General Meeting.

For these reasons, it was not considered relevant to provide a comprehensive table of the individual amounts paid to directors in 2005. Nonetheless, by way of illustration, the individual remuneration paid out in 2005 for offices held in Almanij NV and/or the KBC Bank and Insurance Holding Company is shown in the following table.

The table also shows the amount paid in attendance fees in 2005. These fees are for the first two months of 2005 (Almanij NV prior to the merger) and/or the period from May 2004 through February 2005 (KBC Bank and Insurance Holding Company NV prior to the merger). The attendance fees for the ten months of the first financial year of KBC Group NV will be paid in 2006.

The aggregated individual remuneration that KBC Group NV will pay to its directors in future will be of the same order of magnitude.

● Gross remuneration of non-executive directors (in EUR)

Name	Remuneration	Attendance fees
Paul Borghgraef	74 368	1 244
Paul Bostoën	74 368	944
Jo Cornu	74 368	3 718
Luc Debaillie	74 368	944
Noël Devisch	74 368	1 244
Frank Donck	74 368	4 462
Rik Donckels ¹	148 736	4 962
Jean-Marie Gérardin	74 368	944
Dirk Heremans	74 368	944
Jan Huyghebaert ^{1,2}	74 368	4 462
Herwig Langohr	74 368	4 462
Christian Leysen	74 368	944
Xavier Liénart ¹	148 736	4 662
Philippe Naert	74 368	944
Luc Philips ^{1,3}	148 736	4 462
Theodoros Roussis	74 368	4 090
Hendrik Soete	0	744
Alain Tytgadt	74 368	1 244
Guido Van Roey	74 368	944
Jozef Van Waeyenberge	74 368	944
Germain Vantieghem ¹	148 736	4 962
Philippe Vlerick	74 368	872
Marc Wittemans	74 368	4 462

¹ Director of both Almanij NV and KBC Bank and Insurance Holding Company NV in 2004

² This remuneration relates to the office held at the KBC Bank and Insurance Holding Company. Total remuneration received by Jan Huyghebaert as Chairman of the Board of KBC Group is 868 254 euros per annum.

³ This remuneration is part of the total remuneration package received by Luc Philips in his previous capacity as Managing Director of Almanij NV and is equivalent to that of an executive director of KBC Bank.

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

KBC Group NV was created on 2 March 2005 through the merger by acquisition of Almanij NV by the KBC Bank and Insurance Holding Company NV. Its first financial year, 2005, thus exceptionally covers just ten months and should therefore be considered a transitional year. As the various companies concerned had to be integrated rapidly during that financial year and the early months of 2006, a limited, provisional executive committee comprising three members was established. These persons each kept their previous legal status, which was more or less equivalent. For this reason, the separate disclosure of the remuneration of the CEO of this limited executive committee in 2005 is not relevant.

The following total remuneration was paid in 2005 by KBC Group NV and its direct and indirect subsidiaries to the three members of the Executive Committee of KBC Group NV, namely Willy Duron, André Bergen and Etienne Verwilghen.

Base salary

In 2005, the three members of the Executive Committee received a combined, fixed salary of 1 591 143 euros.

Variable emolument

In 2005, the three members of the Executive Committee received a combined variable emolument amounting to 1 353 528 euros, which related to the results for the 2004 financial year.

Other components of remuneration

In financing 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 fundamentally different. In

2005, premiums totalling 879 826 euros were paid.

The retirement pension amounts to about 30% of the total earnings ceiling.

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

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

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

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

For the same reason as given above, the Board of Directors is of the opinion that the individual disclosure of the share options allocated to the CEO and members of the Executive Committee during 2005 is not relevant.

In 2005, a total of 19 000 options, at an exercise price of 65.21 euros, were allocated to members of the Executive Committee. These options can be exercised from June 2009 to July 2012. They originate from the stock option programme already agreed by the Board of Directors of the KBC Bank and Insurance Holding Company NV in 2002. This decision by the Board allows the allocation of share options on existing KBC shares up to 2012. The KBC stock option plans resulting from the 2002 Board of Directors' decision, therefore no longer need to be approved by the General Meeting of Shareholders.

Principal contractual stipulations regarding appointments and departures agreed with executive officers

The remuneration of members of the Executive Committee comprises a fixed monthly sum and an annual profit bonus. An earnings ceiling exists for the total individual remuneration (including income from offices performed at the behest of the KBC group). They receive no attendance fees and no fixed remuneration as members of the Board of Directors. Members of the Executive Committee also have the benefit of a supplementary retirement pension and, if the insured dies, a supplementary survivor's pension. If an individual's office as a member of the Executive Committee is terminated otherwise than through retirement, remuneration will be paid equal to four times the fixed annual remuneration, save upon resignation or dismissal for serious misconduct.

Shareholdings

● Shareholdings, 31 December 2005

	Members of the executive committee	Non-executive directors	Complete board of directors
KBC shares	10 689	25 697 251	25 707 940
2008 MCBs	-	1 252	1 252
Options on KBC shares	37 100	19 700	56 800

Comments

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

The Audit Committee of KBC Group NV is composed of seven non-executive directors, three of whom are independent. When selecting the members of the Audit Committee, as is also the case with the Board of Directors and the Nomination Committee, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of the three core shareholders (Cera, Almacora and MRBB) and the other permanent shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

- 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 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 Nomination Committee, as is also the case with the Board of Directors and the Audit Committee, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of the three core shareholders (Cera, Almacora and MRBB) and the other permanent shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

- Provision 5.2./9. of the Code stipulates that the audit committee should review the specific arrangements made, by which staff of the company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. If deemed necessary, arrangements should be made for proportionate and independent investigation of such matters, for appropriate follow-up action and arrangements, whereby staff can inform the chairman of the audit committee directly.

The draft text drawn up by KBC Group NV regarding the standards the group should apply pertaining to the protection of so-called 'whistleblowers' is currently being examined and will be applied as quickly as possible.

Risk Management at KBC

Vision and principles

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

At KBC, value and risk management is based on the following principles:

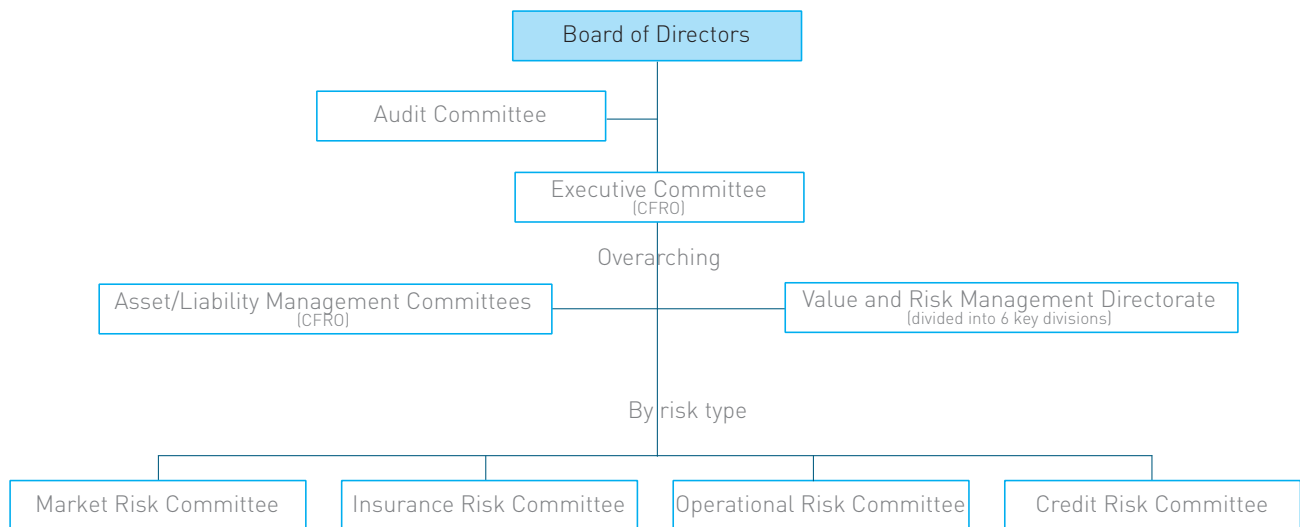
- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management should be approached from a comprehensive, enterprise-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 Value and Risk Management Directorate, operating independently of line management, performs an advisory, supporting and supervisory role.
- Every (material) subsidiary must adhere to the same risk governance model as the parent company.

Risk governance model

The governance model for value and risk management defines the responsibilities and tasks of various bodies and persons within the organisation, with a view to ensuring the sound management of value creation and all the associated risks. The governance model is organised in three tiers:

- Committees that overarch the various companies and types of risk: the Board of Directors, Audit Committee, Executive Committee and the Asset/Liability Management Committees (ALCO) at group, bank and insurance levels. 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 Executive Committee is responsible for the implementation of the value and risk management strategy, outlines the structure and makes the necessary resources available. The Chief Financial and Risk Officer (CFRO) has been entrusted with the specific task of supervising risk management and the internal control structure. The Group ALCO monitors concentration risk, group-wide credit risks at portfolio level and preparations for implementing the Basel II and Solvency II guidelines, and is also responsible for establishing benchmark portfolios and developing capital management. To make certain that the insurer's investment decisions are not inspired by information available in the bank that is not in the public domain and vice versa, the ALM positions of the bank and the insurer are managed by separate ALCOs.
- Specialised risk committees: these committees concentrate on developing a group-wide framework for one particular type of risk and monitoring the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Value and Risk Management Directorate. The various risk committees are as follows:
 - The Market Risk Committee, which monitors the market risks associated with forex and securities trading. However, ALM risks are managed and monitored by the Group ALCO.
 - The Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including counterparty risk in respect of (re)insurance and market transactions).
 - The Operational Risk Committee, which oversees operational risk management.
 - The Insurance Risk Committee, which monitors specific insurance risks.
- Line management and activity-specific committees: line management has primary responsibility for value and risk management. The Value and Risk Management Directorate measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees. Line management is moreover entrusted with the task of developing transactional models, whereas the Value and Risk Management Directorate is responsible for developing portfolio models. Note, however, that the Value and Risk Management Directorate is also responsible for validating both transactional models and portfolio models, but that there is a clear separation of responsibilities (within this directorate, validating staff is different from modelling staff).

Organization chart showing the risk functions at KBC



KBC's CSR organisation

At KBC, CSR matters are handled by specific persons or units within various departments - including the Compliance Department (relating to KBC's codes of conduct and other matters concerning business ethics), the Personnel Department (employee matters), the Facility Management Department (regarding the environmental impact of KBC buildings), the Sponsorship Department (involved in philanthropic and cultural sponsorship), the Asset Management unit (which designs and markets SRI funds on the basis of research conducted by its in-house team of Socially Responsible Investment (SRI) analysts), and the Corporate Credit Department (which establishes policy guidelines for the granting of corporate credits).

Communication and reporting on all CSR-related matters to the external world is the responsibility of the CSR communications function. This function was set up within the Investor Relations Office at KBC's Brussels head office in response to the increasing prominence of CSR both within and without KBC and the need to establish a central point of contact between the various business lines and KBC's senior management for reporting purposes. It is involved in various working groups concerned with CSR issues.

KBC is in the process of extending this strategy to its Central and Eastern European operations (a similar CSR function was created in early 2006 for KBC's Czech operations).



Business ethics at KBC

Sustainable and socially responsible business essentially entails planning and conducting one's business not only with a view to making a profit, but also with an eye to the economic, social, ecological and cultural impact of that business in both the short and the long term. Indeed, ethical behaviour and integrity go hand in hand with good business. But, the increasingly legal and ethical complexity of today's business world means that concrete guidelines are essential for the conduct of business.

● Codes of conduct and anti-corruption policy

The backbone of a company's business ethics infrastructure is a code of conduct for its employees. Since its inception, KBC has introduced various guidelines and codes of conduct to foster sustainable and socially responsible business practices within the group, based on its mission statement. The basic code is the Code of Conduct for KBC Group Employees, which sets out uniform rules of behaviour applicable to all KBC employees in relation to their respective companies, customers and suppliers, colleagues, society, competitors and the media. The concepts of customer-friendliness, efficiency, enterprising spirit and capacity for innovation, as laid down in KBC's mission statement, do not exist in isolation, but only really take on their full significance in a wider ethical context. More detailed codes derived from this document address particular sectors or more sensitive or specialised activities (e.g., Code of conduct of KBC Group for the use of means of communication, as well as codes for dealing room, asset management, advisory functions and services dealing with medical data).

Furthermore, to reinforce the relevant clause in the group's Code of Conduct², in 2005, KBC issued a policy statement, reiterating the group's zero tolerance of bribery or corruption in any form, be it in the private or the public spheres and vis-à-vis national and foreign public officials (see boxed text).

¹ See www.kbc.com/social_responsibility

² Soliciting or accepting gifts or fees

It is unacceptable for members of staff to abuse their position to solicit or accept from clients, suppliers or other business relations, direct and indirect gifts and commissions for personal enrichment, to infer that they might be made or provided, or to encourage their offer... Gifts of money are never permitted... On no account may the acceptance of any gift influence the choice of business relation and the terms under which transactions are concluded with the institution.

KBC against bribery

KBC Group is formally opposed to any form of corruption, including extortion and bribery, in both the private and public spheres. Under no circumstances will KBC or any member of its staff offer or give bribes, either directly or indirectly, in the conduct of its operations. KBC does not condone any form of donations whatsoever to persons or parties in a political or public capacity that is in contravention of the applicable law, nor will KBC tolerate such behaviour by its employees.

Any evidence of such practice will be dealt with accordingly by the relevant department at KBC. In this respect, KBC fully complies with the letter and the spirit of the legislative and regulatory proscriptions in force against bribery and corruption, including vis-à-vis national and foreign public officials.

All of KBC's ethical codes apply throughout the group; in practice, various subsidiaries have implemented own-company codes of conduct, modelled on the KBC's group-wide code, which integrate specific commitments to, for example, anti-bribery and employee rights³.

● Integrity and compliance

Within KBC, the Compliance Division serves as an autonomous 'watchdog', monitoring and promoting compliance of KBC entities with regulations in force regarding banking and insurance operations. It reports directly to the President of the Executive Committee and to the Chairman of the Audit Committee. In particular, it is charged with ensuring that no illegal or criminal transactions occur in connection with money laundering, insider trading or other fraudulent activities, as set down in detail in the Compliance Charter and in KBC's Integrity Policy (see boxed text). In this regard, the Compliance Division collaborates with the internal Audit Division at KBC, which is charged with monitoring risk management at and assessing internal control systems within all KBC entities. Special units have been set up within the Compliance Division to handle particular issues, including the Anti-Money-Laundering Unit and the Anti-Fraud Unit. In addition, local compliance units have been set up in the Central and Eastern European subsidiaries which work closely with the Compliance Division with regard to all areas of priority, and, in particular, the areas of money laundering, fraud and tax evasion.

KBC's Integrity Policy – areas of priority:

- Money laundering⁴
- Prevention of tax evasion and other fiscal irregularities
- Transactions in financial instruments
- Insider trading
- Price manipulation and market abuse
- Observance of the Privacy Act
- Ethical code on proprietary trading
- Incompatibility of mandates

Much attention is also paid to maintaining the confidentiality of information and to respecting privacy, in accordance with Belgium's Privacy Act of 8 December 1992. The Compliance Division's Financial Ethics Unit is responsible for monitoring compliance with policies in this area, as well as with issues related to insider trading and incompatibility of mandates at KBC. There

³ 86% of KBC's Central and Eastern European subsidiaries have already implemented a company-specific code of conduct for employees and have the requisite monitoring and control systems in place.

⁴ Controls on transactions possibly involving money laundering were further tightened in 2005 in accordance with the various amendments to the Belgian Anti-Money-Laundering Act.

are specific guidelines on combating corruption and fraud, as well as set restrictions regarding limiting trading in securities by staff members who have access to price-sensitive information. The Compliance Division has also stepped up its contribution to KBC's training courses by way of traditional classes or information sessions for staff on various aspects of compliance, as well as an e-learning package for employees in the bank branches in order to prevent the laundering of funds from criminal activity,

Moreover, in principle, any member of staff can report irregularities or operational shortcomings in confidence to the Compliance or the Audit Divisions. If the problem is deemed a serious risk, further investigations will be carried out and the relevant division will be required to solve the issue.

KBC Group's statement on human rights⁵

KBC Group fully respects, supports and has implemented the principles underlying universal human rights throughout the Group, including the right to equal opportunity and non-discrimination, the right to the security of persons, the rights of employees (including opposition to any forms of forced labour or child labour, the right to a safe and healthy working place, the right to freedom of association and collective bargaining), respect for national sovereignty and human rights (including opposition to bribery in any form whatsoever), and obligations with regard to consumer protection and environmental protection.

In this respect, KBC Group abides by the letter and spirit of the United Nations Universal Declaration of Human Rights, the eight Fundamental International Labour Organisation Conventions, the European Convention for the Protection of Human Rights and Fundamental Freedoms and other international and regional human rights treaties containing internationally recognised standards that the business sector must respect, and complies with the laws, rules and regulations of every country in which the Group operates. Hence, KBC agrees in principle with the first fourteen points set out in the Draft UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, as these are a summation of all of the aspects of human rights as laid down in the aforementioned international and regional treaties in force.

Moreover, we endeavour to further enhance communication on our policy and stance regarding human rights to our stakeholders - including our customers, employees, shareholders and suppliers - as part of our overall communication efforts on corporate social responsibility.

● Lending policy

The lending business is an essential component of a financial institution's raison d'être. At KBC, the borrower-lender relationship has traditionally been evaluated and monitored on the basis of potential financial risks, with account taken of the relevant environmental and social concerns. However, it cannot be denied that these last two aspects have taken on increasing weight in recent years.

Indeed, KBC's corporate lending business is governed by strict policies and guidelines. The principles and rules set out in the General Credit Policy apply throughout KBC Bank's network and subsidiaries worldwide, including those in Central and Eastern Europe. In its dealings with its customers and the communities in which it operates, KBC observes both the regulations and

⁵ All of KBC's entities covered in this report operate in countries where EU legislation and national laws and regulations in respect of human rights are in force. Consequently, KBC's entities in Belgium and Central and Eastern Europe observe and comply with these laws and regulations. KBC's statement on human rights serves to underline and supplement this commitment on a group-wide basis, and appears on its Web site, www.kbc.com.

standards in force, and the principles of fairness, reasonableness, openness, transparency and discretion, whilst ensuring privacy. Loan applications are generally assessed not only on the purely financial and economic aspects of the loan, but also on the relevant social and environmental aspects. These last two aspects are important concerns at KBC, as the risks associated with these may be translated into credit risk. For this reason, the General Credit Policy stipulates that:

- Aspiring borrowers with activities that are potentially polluting must present an environmental permit to KBC.
- KBC is reluctant to finance companies that are exposed to significant environmental risks.
- Criminal and other socially unacceptable activities, including the drug trade, prostitution and illegal arms-related transactions, are ruled out.
- Potential borrowers must have a known and undoubted reputation.
- In principle, KBC does not lend to or invest in arms manufacturers⁶. Furthermore, KBC rules out investments in or loans to manufacturers of weapons prohibited by law (e.g. anti-personnel mines and chemical and biological weapons) or to companies that manufacture or trade in weapons that are not prohibited by law, but are internationally recognised as having led to disproportionate suffering among civilians in the last fifty years (such as cluster bombs and munitions and weapons containing depleted uranium)⁷.

Moreover, special rules in the form of the Equator Principles govern the global project finance operations of KBC and its subsidiaries. The Equator Principles are a continually evolving set of voluntary guidelines for the banking industry, developed in conjunction with the International Finance Corporation (IFC), the private sector arm of the World Bank, to address environmental and social issues that may arise in financing large-scale projects. Currently, the Principles apply to all projects which exceed the financial threshold of 50 million US dollars.⁸ The focus is on transactions within the infrastructure, energy (power, renewables and oil & gas) and telecommunication sectors. By adopting the Equator Principles, KBC will not provide loans to projects that are not developed and operated in a manner that is socially responsible and reflect sound environmental management practices. (See Appendix III)

In order to reinforce the socio-environmental elements in its lending business, KBC incorporated a new sustainability screening prerequisite into the standard credit appraisal process in March 2006 for corporate loan applications in Belgium. This will be implemented at entity level in Central and Eastern Europe during the course of 2006.

This pre-requisite entails the following enhancements:

- Introduction of a classification of the borrower on the basis of a sustainability risk weighting according to the borrower's industry sector and core business,
- For project finance operations, the use of the project categorisation described in the Equator Principles,
- Systematic and structured analysis and communication of relevant information on exclusions/exceptions with regard to a particular borrower or the industry sector of the borrower - this includes information on the borrower's potentially controversial products or activities.

⁶ Exceptionally, the granting of credits to subsidiaries of weapons manufacturers that are not involved in the defence sector may be considered, if and only if it is certain that the credits will be used for the financing of activities which have no relationship whatsoever with arms or weapons. This condition is strictly monitored and must be met before any such credits are granted.

⁷ KBC's total loan portfolio, including bonds and uncommitted and unused credit lines, was 174.8 billion EUR as at 31 December 2005. The share of outstanding loans to companies involved in the production or sales of weapons is 0.016%. This figure is expected to decline further, in line with contractual repayments.

⁸ Recognising the need to revise and strengthen the Equator Principles framework in the face of changing market conditions and public opinion, the IFC drew up an updated version based on its new Performance Standards, expected to enter into effect at the end of June or start of July 2006. Among other things, the new guidelines will apply to all new projects with total capital costs of 10 million US dollars or more.

● SRI research and stakeholder dialogue

In Belgium, KBC is the first financial institution to have set up its own in-house Sustainable and Socially Responsible Research Department to screen countries and large euro-zone companies for its customers in the field of socially responsible investment (SRI). Its findings are discussed with an independent external advisory board (the External Advisory Board for Sustainability Analysis), comprised of academics and other experts in the field from various Belgian and Dutch universities. The independence of the Advisory Board is intended to guarantee an objective assessment of the company and country profiles used by KBC's SRI research team and therefore lends credibility to its sustainability screening process. The Advisory Board safeguards the quality of the methodology and research carried out by the SRI research team and carries out a periodic evaluation of the completeness, thoroughness and accuracy of the screening process, as provided by the presentation of the screened companies and countries by the analysts. The results of all the sectors screened are submitted to the Advisory Board for discussion. In keeping with its active and transparent communications policy, KBC AM makes the results of this sustainability screening available to the public at no charge on its Web site (cf. <http://www.kbcam.be/sustainableinvestment/>).

KBC carries out sustainability analysis on individual companies and on countries for eligibility in its SRI universe. Companies from various sectors are screened on the basis of rigorous CSR criteria and, within each sector, only the best-performing companies are selected for inclusion. As regards the country screening, the best-in-class method is also applied here. Only those countries are considered for research for which information is available on at least 80% of the 25 indicators. Bonds issued by the 50% of countries with the highest scores are eligible for inclusion in SRI funds.

KBC endorses the European Social Investment Forum's (EUROSIF) internationally recognised Transparency Guidelines for the retail SRI fund sector and, in 2004, played an active role in setting up BELSIF (the Belgian Sustainable and Socially Responsible Investment Forum). BELSIF is a unique, multi-disciplinary organization composed of representatives from the Belgian financial world, research institutes and NGOs concerned with sustainable development and social responsibility. BELSIF's mission is to persuade private, institutional and public bodies to support and pro-actively encourage the sustainable and socially responsible policy of institutional issuers in their investments and investment activities and plans to establish a knowledge centre for sustainable and socially responsible business. At the time of this writing, KBC was holding the presidency of this organization. (cf. www.belsif.be)

As regards ongoing dialogue with stakeholders, KBC has been involved in pro-active discussions with NGOs, such as Netwerk Vlaanderen, in the areas of controversial weapons manufacture and human rights. In particular, a concrete, overarching policy vis-à-vis the weapons industry has been implemented. Initially, KBC blacklisted companies that are involved in the manufacture of or trade in weapon systems that are banned under international law. This includes anti-personnel mines and biological and chemical weapons. Subsequently, in consultation with the External Advisory Board for Sustainability Analysis, other controversial weapons systems were included in the ban⁹. Hence, KBC also excludes manufacturers of cluster bombs and munitions with depleted uranium. This means that the shares and bonds of companies found to be involved in any of the weapons systems mentioned have been purposefully withdrawn from KBC's investment universe with regard to both actively and passively managed mutual funds. The list of the relevant companies will be updated yearly. Although this policy applies in principle to all investments at KBC group entities, in practice, there are still some legacy issues in Central and Eastern Europe which are not yet fully consistent with group policy.

⁹ Controversial weapons are weapons that are not prohibited under international law, but for which there is a broad consensus that they be banned.

● Absolute and relative investments in the aerospace and defence sectors (31/12/2005)10

	Equity investments	Bond investments
Investments in Aerospace & Defence	43.7 m EUR	8.1 m EUR
Total equity/bond investments	16 448 m EUR	30 571 m EUR
Share of Aerospace & Defence in total	0.27%	0.03%

In view of the growing interest in SRI funds, KBC Asset Management has expanded its research capacity in this area and, in March 2004, it organised its first Sustainable Funds Shareholder Day in Belgium to explain investment decisions and to allow shareholders in KBC's sustainable funds to put questions to the fund managers and SRI (Socially Responsible Investment) researchers. This initiative was continued in March 2005, with three well-attended regional Shareholder Days.

SRI funds at KBC

In 1992, KBC launched its first SRI fund in Belgium, the KBC Eco Fund, with a focus on ecological values. This fund, renamed KBC Eco Fund World, is the oldest SRI fund in Belgium still in existence. Currently, customers may opt to purchase shares in 14 SRI funds investing in equities, bonds or mixed asset classes (see Appendix IV)-. At the end of 2005, the amount of capital in KBC's SRI funds topped 1 billion euros, having swelled more than threefold over the year (see graph). This represents nearly 1% of total group assets under management at KBC Asset Management. Moreover, KBC is market leader in the overall investment fund business in Belgium (an estimated 33% market share) and is seeing a steadily rising share in the Central and Eastern European countries. As far as SRI funds are concerned, KBC's market share in Belgium is estimated at around 29% as at January 2006 (as opposed to 16% in 2004).

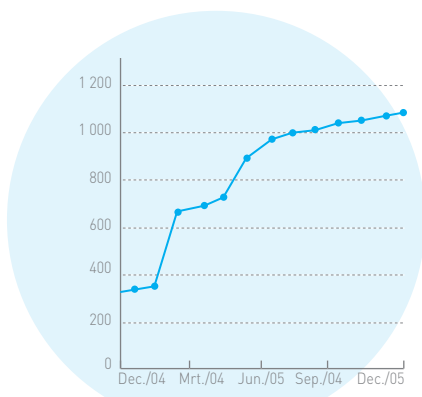
In 2005, KBC introduced two 'new' SRI funds on the Belgian market:

- KBC Equimax CRC Protection Fund 1 is a sustainable, capital-guaranteed fund aimed at both institutional and private investors.
- IN.flanders Index: this fund was initially launched by KBC Asset Management in 2000 together with Tijdbeurs Media, a Belgian media company, and Voka (the Flemish Employers' Association), and the index was composed of the 100 largest companies in the northern half of Belgium, with the respective share weighting based on the employment rate at these companies. In 2005, IN.flanders was reborn to reflect additional sustainability factors other than employment. The index is now composed of the shares of the sixty largest companies in the northern half of Belgium, whose weights are corrected by sustainability scores calculated by KBC Asset Management.

Future ambitions:

KBC plans to continue to expand its range of SRI products and further engage companies during the sustainability screening process. Although none of the SRI funds are currently marketed in Central and Eastern Europe, KBC expects to introduce these funds gradually in the region, in line with market demand.

● KBC's SRI funds - 2005 trend



—● Total AUM in SRI funds

10 These figures apply to KBC's asset management unit.



Our employees

Employees form one of KBC's vital resources and are also key stakeholders in the group's strategy and future growth. KBC is therefore committed to ensuring employee motivation and determination at work, whilst encouraging a healthy life-work balance.

● Basic indicators

An overall breakdown of KBC's workforce in 2004 and 2005 is shown in the table below.

	as at 31/12/2004		as at 31/12/2005	
	Number	% of total	Number	% of total
Geographical breakdown				
Belgium ¹	17 277	40%	17 241	40%
C.E. Europe ²	26 425	60%	26 259	60%
Breakdown by gender				
Men	17 346	40%	17 235	40%
Women	26 356	60%	26 265	60%
Breakdown by pay category				
Senior management	936	2%	916	2%
- of which women	248		260	
Junior and middle management	12 866	29%	12 653	29%
- of which women	-		5 043	
White- and blue-collar staff	29 900	69%	29 931	69%
Breakdown by contract type				
Permanent	39 690	91%	39 412	91%
Temporary	4 012	9%	4 088	9%
Breakdown by workhour				
Full-time (100%)	36 766	84%	35 928	83%
Part-time 80%-100%	2 883	7%	3 078	7%
Part-time < 80%	4 053	9%	4 494	10%
Total headcount	43 702	100%	43 500	100%
Total, in FTEs	41 026	-	40 522	-
Average age	39.3	-	39.5	-
Average seniority	-	-	11.8	-

¹ Covers all staff employed at KBC Group NV, KBC Bank, KBC Asset Management and KBC Insurance and all the branches and agencies, representing 81% of Belgian staff (some subsidiaries are not included yet).

² Covers all staff employed at CSOB, K&H, Kredyt Bank and WARTA groups, representing 99% of staff in Central and Eastern Europe.

Some key points that can be discerned from the above table:

- the total number of employees at KBC remained more or less stable over the 2005 calendar year
- there are 50% more female than male employees. On a regional basis, this disparity holds true for Central and Eastern Europe (where the distinction is even more pronounced: 70% female vs. 30% male employees), but is somewhat reversed in Belgium (46% female vs. 54% male employees).
- according to the breakdown by pay category, more than two-thirds of the workforce is made up of white- and blue-collar staff (employees in administrative functions), while almost 30% are at junior and middle management level. In Belgium, however, junior and middle management accounts for over 40% of the total workforce, whilst only 20% of Central and Eastern European staff falls in this category. The overwhelming majority of Central and Eastern European employees (77%) are white- and blue-collar staff (vs. 57% in Belgium).
- the number of women in senior management went up almost 5% from 2004 to 2005, and women now represent 28% of senior managers. On the other hand, regionally speaking, less than 10% of senior management in Belgium is composed of women, whereas almost one in three members of the senior echelons in Central and Eastern Europe are female.
- at junior/middle management level, 40% is made up of women. However, once again, this figure is weighed by the preponderance of women in Central and Eastern Europe (56%) as opposed to in Belgium (28%).
- the majority of staff is employed on a permanent contract. In Belgium, 99% are on a permanent contract vs. 85% for Central and Eastern Europe.
- although full-time employees are still in the majority, the number of employees electing to work part time rose 9% over 2005 and now represents 17% of the total headcount. 93% of Central and Eastern European staff works full-time vs. 68% in Belgium.
- the average KBC employee is 39.5 years old and has an average 11.8 years work experience in the group, implying a high degree of loyalty to the company. On a regional basis, the average employee in Belgium is older than his/her Central and Eastern European counterpart (42.6 vs. 37.5 years old) and tends to have a much longer career record in the group (18.7 vs. 7.6 years).

● Employee satisfaction

Employee satisfaction is a matter of concern not only for the employees themselves, but for KBC, as well, as retention of a talented workforce is critical to a company's success. The most common and simplest measure to track employee satisfaction is via specially designed satisfaction surveys. Thus far, no standardised employee satisfaction survey exists for the entire KBC group, as a uniform human resources management system is still in the process of being implemented in the two home markets.

In Belgium, employee satisfaction surveys are carried out regularly (usually once or twice a year, covering one-half of the workforce each time), whether on an overall basis or on specific topics. Based on the results of these surveys, selective measures are taken where necessary. No overall survey was undertaken in 2005 (the last one was held in 2004 and reported on in the CSR Report of September 2005), but KBC's Personnel Department has been carrying out in-depth analyses of past results. Although *ad hoc* surveys have been carried out in the past in Central and Eastern Europe, periodic employee satisfaction surveys are not yet the norm, with only about 18% of all staff in the four countries being covered on a regular basis. However, there are plans to introduce such surveys in the coming year.

Open, transparent communication is essential for ensuring that staff members are well informed on all matters that affect the company and its employees, be it with regard to strategy or practical issues such as IT upgrades. Moreover, these channels serve as upward feedback, enabling employees to voice their opinions and/or concerns. In Belgium, KBC's intranet includes an interactive online forum and suggestion box, as well as provides in-house company news

on a daily basis. A company-wide intranet is also available at each of the Central and Eastern European units. Additionally, KBC's in-house magazine, *Impuls*, regularly features articles on employees in particular departments or branches throughout the group for staff in Belgium, whilst *Horizon* serves a similar purpose in English for staff employed in Central and Eastern Europe and the international branch network. Company-specific magazines and newspapers are also published regularly in Central and Eastern Europe. Since 2005, a new yearly event, *Mozaiek*, has been taking place in Belgium as another form of interactive forum for employees and senior management on various issues including group strategy and human resources management. Besides these channels, employees may discuss personal problems confidentially with their personnel adviser or a member of the Compliance Division, if the problem is related to financial ethics. Professional psychologists are also available for consultation within the Medical Service for particular problems arising from undesirable behaviour by members of staff, including violence, bullying and sexual harassment.

● Employee absenteeism, Belgium + Central and Eastern Europe (in %)

due to	2004	2005
Sickness	3.35	3.45
Maternity leave	1.31	1.25
Accidents	0.11	0.10
TOTAL	4.76	4.79
In Belgium	3.60	3.92
In C.E. Europe	5.45	5.33

Employee absenteeism³ may be construed as another indicator of employee satisfaction, albeit one that should be used with care. According to the table above, employee absenteeism at KBC edged up somewhat in 2005, mainly due to a small increase in sickness-related cases. Moreover, although, from a regional perspective, absenteeism was somewhat higher in Central and Eastern Europe in both 2004 and 2005, KBC's second home market saw a slight downtrend over the period vis-à-vis in Belgium.

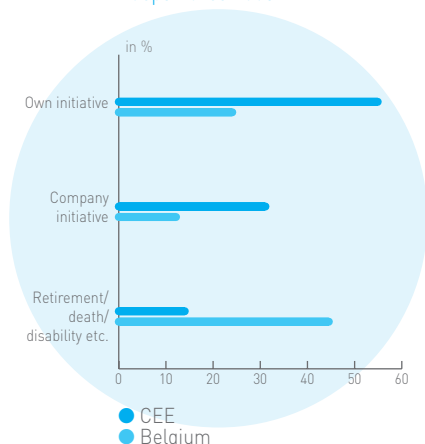
On the other hand, integration and nurturing of 'attachment' to the organization has been stepped up in recent times, as evidenced by the introduction of new, harmonised logos for all entities in both Belgium and Central and Eastern Europe. The latest edition of *Mozaiek*, the annual employee rally for staff members and senior management in Belgium, focused on the growing international face of KBC with the participation of Central and Eastern European entities.

Several projects have been launched at KBC in recent years with a view to help employees feel more integrated in the company and to allow employees to strike a better balance between their professional and private lives, with incentives to lessen the stress of commuter travel. These projects have included the introduction of flex-time and gliding schedules in the head office buildings (in Belgium and Central and Eastern Europe), the reimbursement of expenses for regular commuter travel based on public transportation fares and for bicycle commuters, a car-pooling database, home-/teleworking schemes for certain departments and the provision of childcare during the holidays. Moreover, in 2005, due to increased demand, a larger number of employees were allowed to switch from full-time to part-time working hours. Finally, all employee complaints and grievances are handled in full confidence, whether by means of personal counselling or via a special letterbox system.

³ Absenteeism is calculated here as the percentage of days absent due to sickness/maternity leave/accidents during the standard employment year (excluding weekends, national and banking holidays, and unpaid leave days)

Staffing levels and remuneration policy

Reasons for employee departures 2005



Staffing levels

In 2005, the total number of employees in KBC's Belgian and Central and Eastern European entities declined by 1% to 40 522 full-time equivalents (FTEs). Both internal and external recruitment picked up in 2005 to replace staff departures and to fill new positions, to intensify further in 2006. This was particularly the case in Belgium, where new recruits increased almost threefold in 2005 vis-à-vis 2004. As part of the integration of the bank and the insurer's human resources functions in Belgium, the respective recruitment and selection services of KBC Bank and KBC Insurance have been brought under one management, thereby enhancing KBC's profile in the labour market. In Central and Eastern Europe, downsizing programmes were already implemented prior to 2005. Although no official recruitment campaigns were announced for most of the Central and Eastern European entities in 2005, new recruits rose by 23%. Moreover, the primary reason for employee departures in the group as a whole was on account of personal reasons. This was also true in Central and Eastern Europe. However, in Belgium, the main grounds for employee departures were on account of retirement, death or disability (see table and chart).

Employee turnover

	2004		2005	
	No. of FTEs	% of total	No. of FTEs	% of total
new recruits ^{4*}	3 292	8	4 429	11
employee departures	5 858	14	4 579	11

Reasons for employee departures (2005)

	No. of FTEs	% of departures
Own initiative	2 374	52
Company initiative	1 335	30
Retirement/death/disability, etc.	870	18

Remuneration policy

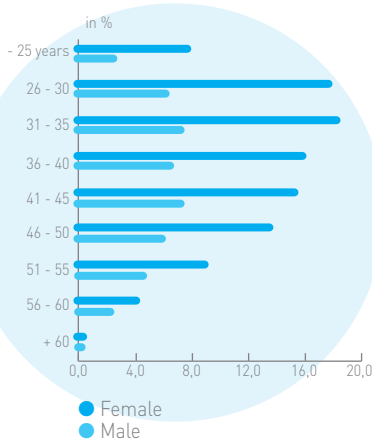
KBC operates an equal pay policy for men and women with the same job content and job grade, both in terms of basic monthly salary and as regards bonuses and other fringe benefits. Non-management staff members receive a certain salary scale based on job content and performance. The remuneration (fixed and variable) is strictly stipulated for each pay scale. This means that men and women always receive identical salaries within their pay scale and based on their age, as well as identical fringe benefits and identical bonuses in the event of identical performance.

A number of adjustments were implemented in 2005 to KBC's pay and promotion policy, designed to make this policy even more balanced and transparent. In Belgium, the 'individual bonus' and the 'team or group bonus' were made more objective and consistent with one another, while the employee profit-sharing bonus was rationalised. Moreover, the system of pay categories and the career review process have also been revamped with the introduction of stricter standards for promotion. As a result of these changes and in order to ensure that the wage increases are commensurate with the revised pay categories, the budget for pay category increases for supervisory and management staff was boosted by 17%.

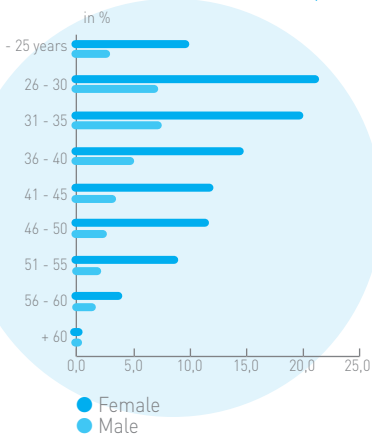
In the Central and Eastern European entities, the remuneration process is also under review, including the implementation of new bonus and benefits systems. For example, the Czech and Slovak units plan to discontinue a company-related bonus, which has so far constituted the bulk of variable compensation in an employee's pay package, in favour of a bonus scheme based on individual or team performance.

⁴ Excludes new recruits on a temporary contract.

● Gender Breakdown, KBC



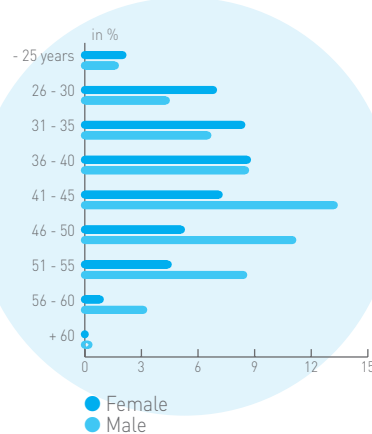
● Gender Comparison, Central and Eastern Europe (2005)



● Employee breakdown, KBC combined - 2005

(in % FTEs)		
Age group	Male	Female
< 25 years	2.3	5.1
26 - 30	6.0	11.6
31 - 35	7.0	11.1
36 - 40	6.3	9.4
41 - 45	7.0	8.1
46 - 50	5.7	7.6
51 - 55	4.4	4.3
56 - 60	2.0	1.8
> 60	0.2	0.1
Total	41.0	59.0

● Gender Comparison, Belgium (2005)



Equal treatment and non-discrimination

It is basic KBC policy to treat all members of staff equally. KBC's Human Rights Statement echoes this, by supporting the right to equal opportunity and non-discrimination. Moreover, KBC does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation, etc. in its staff regulations, and in its selection and promotion policy and performance appraisal systems. In Belgium, KBC has also drawn up and communicated a procedure via the company intranet to preclude or do away with all forms of violence, bullying and sexual harassment at work.

Women employees

The percentage of women in management functions has been a continual area of attention for KBC. The promotion of women to management posts is related to the number of highly qualified female applicants and the resultant appointments. The number of qualified women joining KBC has been at consistently high levels in recent years, and this has resulted in a continuous increase in the number of women in management functions. However, women are still not well represented at senior levels, particularly in Belgium (less than 10% of senior managers in Belgium are women, as opposed to almost one-third in Central and Eastern Europe). Hence, several female managers and directors in Belgium were involved in 2005 in studying ways of increasing the number of female employees rising to more senior positions within the company. This resulted in a management decision in February 2006 which seeks to redress the gender imbalance at senior levels of management by means of specific measures.

To facilitate a healthy work-life balance, KBC has implemented a large number of initiatives including part-time working, providing childcare facilities during holidays, flexible working hours, local working, measures to resolve mobility problems, etc. These measures promote participation - including by women - in the employment process and enable them to combine jobs carrying a higher level of responsibility with their family life. In Central and Eastern Europe, flexible working hours now apply to 14% of the FTEs there, while there are plans to extend this system in 2006 specifically to women on maternity leave (to cover approximately 30% of FTEs there).

The table and bar chart above shows that women are in the overwhelming majority amongst the younger age groups. This is partly a reflection of a generational shift, as more qualified women entered the workforce in recent years. Moreover, particularly in Central and Eastern Europe, women outnumber their male counterparts in practically all age groups, partially a consequence of the historic legacy there.

Non-discrimination

KBC takes the issue of non-discrimination seriously. In Belgium and in the new EU member states of Central and Eastern Europe, discrimination in all forms is regulated by the respective national laws and regulations. They are designed to protect all ethnic groups and their scope also covers discrimination on the grounds of nationality, age, religion, sexual orientation, disability and present or future health conditions. KBC therefore complies strictly with the anti-discrimination legislation in force.

In Belgium, KBC explicitly 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, the *Ondernemers tegen racisme en voor diversiteit* ('Flemish entrepreneurs against racism and for diversity') charter, and, since December 2005, the *Charter voor diversiteit in de onderneming* ('Charter for diversity in the company'), drawn up by the Brussels Region. All these initiatives reflect KBC's commitment to condemning and forbidding any form of discrimination in the recruitment and promotion process throughout all its entities worldwide.

In Central and Eastern Europe, although no particular charters with respect to non-discrimination exist or have been signed, each of the countries in which KBC operates has adopted strict laws and regulations in this regard, which apply equally to private and corporate citizens, and KBC is no exception to the rule.

Finally, it should be mentioned that KBC is opposed to any form of child labour or forced labour, as delineated in the Human Rights Statement (cf. p. 33)⁵.

● Social dialogue

The right to freedom of association and collective bargaining is one of the fundamental tenets that is upheld and respected by KBC and set out in the Human Rights Statement.⁶ At KBC, every employee may become a member of one of the employee unions or submit his/her candidacy via such an organization for a mandate in the official consultative bodies. KBC's desire to maintain social dialogue is illustrated by the fact that the trade unions are viewed as true 'social partners'. Moreover, KBC has committed itself to encourage social dialogue in the various countries in which it operates.

On account of the accession of the ten new Member States to the European Union in 2004, the countries that make up KBC's two home markets are now subject to the same EU conventions and directives on freedom of association and collective bargaining. As a result, in 2005, KBC's group-level European Works Council (EWC) meetings included the participation not only of representatives from Belgium, but - for the first time - those of Central and Eastern Europe, as well.

According to management estimates, approximately 12% of Central and Eastern European staff is a member of a union⁷. Moreover, KBC's group-wide Personnel Directorate has an ongoing role in serving as intermediary in all matters of social dialogue in both Belgium and Central and Eastern Europe.

⁵ All of KBC's entities covered in this report operate in countries where EU legislation and national laws and regulations in respect of human rights are in force. Consequently, KBC's entities in Belgium and Central and Eastern Europe observe and comply with these laws and regulations. KBC's statement on human rights serves to underline and supplement this commitment on a group-wide basis, and appears on its Web site, www.kbc.com.

⁶ In Belgium, both positive and negative freedoms of association are guaranteed by the Act of 24 May 1921. This is much broader in scope than ILO Conventions 87 (Freedom of Association and Protection of the Right to Organise Convention) and 98 (Right to Organise and Collective Bargaining Convention), ratified by Belgium, which guarantee positive freedom of association only. The right to collective bargaining is enshrined in Belgium's Collective Agreements and Joint Committees Act of 5 December 1968. This law stipulates that employee representative organizations alone are authorised to take part in such actions.

⁷ Estimates for Belgium are not available, as employee unions in Belgium traditionally do not publish their membership lists.

Talent development and knowledge management

KBC's vision on training is based on the fundamental belief that everyone has talents, that appropriate remuneration should be paid for these talents and that opportunities should be provided for their further development. Much time and effort is therefore spent not only on training employees, but in the development of the courses themselves, with the available range being continually reviewed and updated.

All	Cost in 1 000s of EUR	Number of FTEs covered	Cost/FTE
2004	38 647	37 005	1 044 EUR
2005	44 784	35 936	1 246 EUR

This is also reflected in KBC's expenditure on in-house training. As shown in the table above, both the absolute and the relative costs per full-time equivalent (FTE) went up significantly between 2004 and 2005. The costs cover staff employed full time and any facilities used exclusively for the purpose of in-house classes (e.g., the Learning Centre in Belgium), as well as all costs associated with instructors (including members of staff who volunteer their work time to teach a class) and any equipment or supplies.

KBC offers a differentiated range of developmental possibilities, taking account of an individual's various skills. Various types of training tools are available (classical, individual study, learning on the job, etc.) across the entire banking and insurance spectrum. In Belgium, employees may consult and sign up for courses via an in-house, on-line catalogue. Depending on the envisaged goal, KBC arranges courses for in-class training, individual study or e-learning, while employees may also opt for non-work-related evening courses free of charge. Specific training programmes for new employees and particular job categories are also provided, as well.

Employees' competencies are identified by means of career assessment surveys. This in turn enables customised career development plans to be drawn up and facilitates the exchange of competencies within the group on an objective basis. In 2005, new initiatives were implemented at group level to rationalise the course offering and provide a systematic training 'ladder' in tandem with career goals. Hence, the KBC Bachelor and KBC Master curricula were set up, covering all aspects of banking and insurance. Central and Eastern Europe has been following Belgium's example, with the gradual introduction of courses aimed at young graduates and managers. Moreover, for talented staff members with managerial potential, more advanced programmes were introduced, including the internationally geared 'KBC Academy', an intensive, five-week-long module for promising young 'high potentials' throughout the group's network worldwide, held in the Spring and in Autumn in both Belgium and Central and Eastern Europe.

The fact that KBC has put a lot of effort in upgrading its in-house catalogue of courses and learning management system was recognised publicly in Belgium in April 2006, when KBC was awarded Best Employer for Lifelong Learning on the basis of a study carried out by Belgium's Vlerick Management School.

● Breakdown of courses according to course days and areas

	2004	2005
Number of course participant days (total)		
In-house courses	196 222	187 688
External courses	68 046	81 135
In-house courses per area (number of course participant days)		
Banking/Insurance-related	107 834	118 462
Skills (management, sales, etc.)	30 228	30 626
Other (IT-related, languages)	58 160	38 600
Other		
average number of training days per FTE ⁸	7.45	8.11

According to the table above, both the total number of course participant days and average number of training days per full-time equivalent (FTE) rose in 2005 vis-à-vis 2004. This was particularly visible in Central and Eastern Europe, where the average number of training days went up from 10.69 to 12.03 in one year, or an increase by 12.5% (in Belgium, the rise was more muted, up from 3.17 to 3.28, or 3.5%). Moreover, there was an overall rise in banking and insurance-related courses in-house, most probably due to the wider selection of courses and programmes on offer for both recent graduates and employees with 'high potential'.

● Health and safety

Given that employees form an essential part of KBC, occupational health and safety is an important issue, not only during work hours and as regards the workplace, but outside, as well. KBC ensures that health benefits are made available to its staff on top of any national government schemes in this regard.

In Belgium, KBC has a sizeable in-house Prevention Department (32 members) which covers all group entities in the region. Its main focus is on the prevention of accidents at work and includes a Medical Service with certified doctors and nurses, professional psychologists, advisers in ergonomics and hygiene/sanitation. All professionals are encouraged to keep up to date in their field via internal or external courses. In Central and Eastern Europe, health care is provided in accordance with national laws. Additionally, for example, KBC's Hungarian arm has set up an in-house Prevention Department with ten members who are hired on a contractual basis, while its Polish arm works with an external provider of medical care and prevention services.

As regards initiatives taken over the past year, for instance, in Belgium, there were information sessions on the hazards of smoking and drinking during work hours, as well as continued efforts to raise awareness on workplace ergonomics and measures to be taken in the event of harassment and bullying. Another example concerns KBC's Hungarian arm, where employees underwent eye checks, receiving a financial contribution towards the purchase of prescription glasses, if required.

⁸ (total number of course participant days)
number of FTEs covered (see cost table)

Two indicators used by KBC's Prevention Department in Belgium with regard to occupational accidents are the frequency and severity of accidents at work (including commuting to/from work), reported on an annual basis. The frequency of accidents provides a relative indication of the number of accidents vis-à-vis the number of work hours, while the severity of accidents reflects the number of work days lost vis-à-vis the number of work hours. These statistics enable KBC to compare its performance with that of the rest of the Belgian services sector.

● **Frequency and severity of accidents at work, KBC Belgium⁹**

	2004	2005
Frequency	4.3	2.5
Severity	0.06	0.02

In 2005, KBC recorded a frequency of 2.5 occupational accidents and a severity of 0.02, a noticeable drop from a year earlier and much lower than the average for the Belgian services sector in 2004 (24.25 and 0.58, respectively).

In the event that a work-related accident occurs, KBC has taken out insurance which also covers accidents occurring on the way to and from work. This insurance covers the medical costs and guarantees a substantial net income.

In Belgium, KBC also provides assistance in the case of other non-work-related accidents or hospital admissions (e.g., payment of hospitalization expenses via an insurance policy, guaranteed income, repatriation from abroad, income top-up in the event of long-term incapacity for work, etc.). In the event of death - whether or not due to a work-related accident - there are also a number of financial assistance schemes for the next of kin (a lifelong annuity for the spouse and minor children, etc.). In Central and Eastern Europe, KBC's Polish arm also provides for medical care for employee families.

In addition, employees may also opt to enrol in a KBC pension plan, if available. In Belgium, this may be either one funded by the employer, which ensures that employees receive a substantial amount on retirement based on their length of service and their income from the bank during the preceding five years, or one funded by the employee, involving tax-friendly investment with a guaranteed minimum return. In Central and Eastern Europe, the Czech and Slovak units have also implemented a pension scheme whereby 3% of the gross wage is withheld for this purpose.

⁹ Covers all group entities in Belgium



Environmental stewardship

Despite the fact that a financial services group clearly has less of a direct impact on the environment than, for example, an industrial or logistical concern, KBC is still aware that a service-providing company can also help to reduce the strain on the environment by making rational use of natural resources.

● Policy

Growing concerns worldwide about climate change and the impact of greenhouse gases have induced various efforts at corporate level to implement measures to tackle these issues. KBC has certainly not ignored the trend towards reducing energy consumption and carbon dioxide emissions and focusing on recycling waste products to help lessen the environmental impact. KBC's practices in this regard are summarised in its updated Environmental Policy Statement (see boxed text below). This policy has been implemented at KBC's operations in Belgium and is being monitored by a working group comprised of staff members from the Legal Department and facility management representatives from the various Belgian group entities. As for the Central and Eastern European entities, the systematic measurement and monitoring of environmental performance were started up at the end of 2005 and are in the process of being implemented in 2006.

KBC'S updated environmental policy statement

KBC's environmental policy statement is in line with its overall mission statement which, true to the stakeholder model, covers KBC's role within the communities it serves.

In keeping with this mission statement, KBC observes certain principles with regard to its operations and their impact on the environment and, in each of its activities (such as lending and investment), devotes all due consideration to environmental policy and ecological risks.

KBC is aware of the fact that it has a clear, direct impact on the environment and that even in a service-providing and information-processing enterprise, the rational use of natural resources can significantly reduce this impact.

Compliance with environmental legislation is naturally the very least that can be done, but KBC also, in so far as is economically feasible, applies the highest possible technical standards and sets its own objectives for reducing/limiting its impact on the environment.

The indirect environmental impact which it generates via its customers through the sale of its products and services is, however, greater than its own direct impact. Consequently, it will have an eye to the influence on the environment of companies and projects it finances. Through the advice and service it provides, it will endeavour to preventatively limit the environmental effects its customers may cause. KBC will be assisted in this by ARGUS, an independent organization KBC has funded for more than thirty years and which has built up considerable know-how in the area of environmental advice and policy.

Scope

Operations

KBC will ensure that its use of resources is as ecologically sound and as rational as possible, and will pay particular attention its use of water and energy, its consumption of products, the prevention and processing of waste, transportation and employee-mobility. The point of departure here will be full compliance with the relevant laws and implementation of environmental performance systems inspired by the ISO 14001 standard.

KBC endorses sustainable building principles and, in providing accommodation for its workforce, takes account of such factors as the possible environmental impact, as well as of employee comfort and efficiency.

KBC encourages its suppliers to adopt a similar approach.

Customer service

For credit-granting purposes, risk analyses conducted on the borrower always take account of environmental risks, partly because they could potentially have an adverse impact on the borrower's activities and consequently on his repayment capacity and collateral.

Accordingly, wherever possible, the bank checks whether the borrower complies with environmental legislation, and to this end devotes the requisite attention to environmental issues in training its personnel.

By organising seminars on environmental performance for companies, whether in collaboration with ARGUS or external partners, it helps its business customers to control their environmental risks. ARGUS also provides first-line information on environmental problems to KBC branches or directly to individual companies.

Via KBC Asset Management, KBC also offers a range of sustainable investment funds, suitable for the entire range of risk profiles. An in-house research unit conducts sustainability screening on a number of countries and companies, and much of this involves examining various environmental aspects. The outcome of this screening is made public.

In the field of insurance, KBC puts its environmental policy into practice by devoting attention to environmental aspects of policies, creating specific environmental insurance and seeking to prevent environmental incidents being caused by the persons it insures.

Objectives

Environmental performance systems

KBC seeks to continuously apply its environmental policy, and consequently plans to develop and implement, in stages, an environmental management system that will entail analysing the main environmental effects, setting and updating targets, and formulating, implementing and following up action plans with a view to enhancing KBC's environmental performance on a continuous basis.

Any potentially adverse effects on the environment will be detected proactively and as quickly as possible, so that they can be avoided or minimised.

Each year, environmental targets and corresponding environmental programmes are formulated/reviewed by divisions whose activities have a direct environmental impact.

Energy:

KBC intends to reduce its overall energy consumption over time by applying the best available technology that is also cost-efficient, whilst ensuring that the needs for employee comfort are well balanced against that of energy efficiency.

Business travel:

KBC is developing a policy that is centred on maintaining a good balance between customer focus and easing the environmental impact of transportation.

More concretely:

- KBC provides transportation options with regard to domestic commuter travel by encouraging employees to carpool, use the public transportation network or commute by bicycle, striving to ensure optimal commuting distance to the workplace and creating further opportunities for work closer to home.
- For domestic business travel, the time efficiency requirement will be balanced against attention to customer needs.
- For international business travel, time efficiency continues to be the prevailing factor.

Paper consumption:

- KBC will systematically look into ways of implementing procedures and equipment which focus on efficient paper use.
- The use of recycled paper or paper made from sustainably manufactured wood fibre is encouraged.

Water consumption:

Consumption of drinking water is being reduced by ensuring that new office space planned for construction is fitted out with water-saving installations and systems to enable the channelling of rainwater for practical purposes (e.g., water-cooling mechanisms, toilet flushes, etc.)

Waste:

KBC will continue its efforts to curtail the environmental impact of waste by optimising/harmonising waste collection in order to achieve a maximum degree of recycling and minimise transport to waste sites.

● Recent achievements

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

- The continuing collaboration with ARGUS, KBC's environmental centre. This organisation endeavours to contribute to sustainable welfare by ensuring that objective information is made available via its publications and website, training courses and other services (see boxed text, p. 55).
- The continuous attention paid to waste management. For instance, in Belgium, KBC inventoried, analysed and optimised the collection of the various types of waste produced. Moreover, efforts were made to process waste as usefully as possible by recycling it or by incinerating it and producing energy as a by-product. KBC has set up similar projects in Central and Eastern Europe, including selective waste collection and management in Hungary and the Czech Republic.
- With regard to business travel, KBC's policy focuses on enhancing relationships with customers, while, at the same time, minimizing the burden of business travel on the environment. Hence, alternative commuter arrangements such as carpooling and public transport are continually encouraged. KBC has also piloted a system of localised work stations in Belgium as part of an effort to reduce commuting distance to office locations. Moreover, to cut back on excessive business travel, video conferencing facilities have been set up in the head offices.
- In Central and Eastern Europe, energy audits were carried out in the main administrative buildings of the Czech and Slovak Republics. A similar audit is planned for the head office of the Polish unit to help streamline energy use. In Hungary, new energy-efficient gas boilers and cooling systems are being introduced in the main administrative buildings and in the branch network to help reduce gas and electricity consumption.
- In Belgium, the West Flanders Environmental Charter was endorsed in 2005 – for the second year in a row – for all 179 branches located in that province. This initiative aims to bring together companies that voluntarily endorse environmental objectives and that seek to continually improve their environmental performance. Each year, a commission judges the participating companies on the progress they have made in this regard (cf. <http://www.gomwvl.be/ned/milieu/mcharter.htm>).
- At the start of 2006, KBC's private equity arm helped to establish and finance 4Energy Invest NV, a Belgian company specialising in the production of renewable energy ('green electricity') based on biomass. Biomass is the organic matter in trees, agricultural crops and other living plant material. The use of biomass for energy does not increase carbon dioxide emissions and is a way to dispose of waste materials that otherwise would create environmental risks. 4Energy Invest will initially focus on projects in Belgium, but plans to expand into Central and Eastern Europe.
- The introduction of a sustainability clause in procurement contracts with third-party suppliers and in real estate contract work to ensure that environmentally-friendly products are used. In fact, all group companies are aware of the need for implementing environmentally responsible building practices. For instance, when the Czech arm was building its new head office in Prague, sustainability principles were observed, as care was taken to integrate the building into the landscape, to ensure that a pleasant 'green' working environment was created and that appropriate building materials and technology were used.

		2005				2004		
KBC Group's environmental performance indicators*		Number of employees covered (FTEs)	Absolute figures 2005	Relative figures (per FTE)	Relative change (per FTE)	Number of employees covered (FTEs)	Absolute figures 2004	Relative figures (per FTE)
Internal Energy	1) Total internal energy consumption in GJ		1 410 819	34.7	5.8%		1 183 552	32.8
	1a) Electricity consumed in GJ	40 604	691 933	17.0	-4.1%	36 062	639 420	17.7
	electricity from hydroelectric power stations							
	- from grey energy		82%				82%	
	- from green energy		18%				18%	
	1b) Fossil fuels consumed in GJ	37 072	491 856	13.3	-2.2%	32 407	440 211	13.6
	- natural gas		91%					
	- heating oil		8%					
	- fuels for emergency power units (petrol, diesel)		<1%					
	- coal		<1%					
1c) Other energy consumed in GJ	22 352	227 030	10.1	83.6%	18 893	103 921	5.5	
Business Travel	2) Total business travel in '000 kms							
	2a) commuter travel	28 040	250 604	8 937 kms	64.5%	18 046	98 043	5 432 kms
	rail travel		65 535				40 678	
	road travel		125 352				13 571	
	car pooling		14 033				1 946	
	bus		41 163				41 245	
	bicycle, on foot		4 521				603	
	2b) business travel ('000 km)	28 040	82 174	2 931 kms	-0.3%	21 701	63 820	2 941 kms
	2a) rail travel							
	2b) road travel		79 549				61 938	
2c) short-haul air travel < or = 500 kms)								
2d) long-haul air travel > 500 kms)								
Paper	3) Total paper consumption in tons	41 513	5 454.55	0.131	-0.7%	36 928	4 871	0.132
	3a) post-consumer recycled (in tons)		19.0				18	
	3b) new fibres ECF + TCF (in tons)		5 299.35				4 816	
	3c) new fibres chlorine bleached (in tons)		4.20				0	
	3d) consumption of FSC-labelled paper in tons		111.0				14	
Water	4) Total water consumption in m ³	40 604	704 829	17.36	31.3%	28 380	375 231	13.22
	4a) rain water		0					
	4b) natural water		210 218	30%				
	4c) drinking water		494 611	70%				
Waste	5) Total waste in tons	37 905	11 440.97	0.302	1.9%	33 108	9 802.58	0.296
	5a) valuable materials separated and recycled		5 853.09				5 436.9	
	5b) waste incinerated		1 625.36				1 966.0	
	5c) waste disposed of in landfills		3 962.52				2 400.7	
Emissions	6) Direct and indirect GHG emissions in tons	40 869				36 318		
	6a) GHG emissions of direct energy use		54 440	1.332	-15.8%		57 455.5	1.582

* See Appendix V for methodological notes to the table.

Environmental performance indicators

The table is based on that provided in 'VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry'¹, available at www.epifinance.com. It shows the environmental performance of KBC entities in Belgium and Central and Eastern Europe, where available. This is the first time that the data is presented in consolidated form for KBC's Belgian and Central and Eastern European operations. As it is also the first time that comprehensive data related to the environmental performance indicators have been collected in Central and Eastern Europe, there are some inherent limitations to the quality of the figures reported on, due to the assumptions, estimations and calculations that have been used.

1 VfU, or Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V. [Association for Environmental Management in Banks, Savings Banks, and Insurance Companies], is a German organisation which has been instrumental in developing a pragmatic and practical approach to measure and report on environmental performance within the financial sector.

Main conclusions based on the environmental performance indicators

Indicator 1 (Internal energy consumption)

According to the relative data, energy consumption per full-time equivalent (FTE) rose somewhat over the year, while the use of both electricity and fossil fuels has declined slightly. On the other hand, the figure for district heating in Central and Eastern Europe has apparently doubled, although there is some reservation about the accuracy of this figure. 82% of the electricity consumed stems from conventional grey energy and the largest component of fossil fuels consumed is natural gas. At the regional level, electricity consumption was down 6.4% in Belgium, but up 16.6% in Central and Eastern Europe. Belgium's fossil fuel consumption edged up 11.7% due to a rise in natural gas use, but heating oil declined by 9.1%. In Central and Eastern Europe, fossil fuel use was generally reduced by 13.9%.

In Belgium, as most KBC buildings are new, any major efforts to improve the power systems would be difficult because the present installations are already performing as they should be.

Most of the gains to be made have already been reaped (i.e. good housekeeping actions have already been implemented). Under the current operational conditions (present comfort levels, business hours, etc.), the overall energy consumption will continue to be at the same level. However, improvements to achieve greater energy efficiency are being made in Central and Eastern Europe.

Indicator 2 (Total business travel)

The relative data shows that commuter travel per FTE has increased by over 50%, although the data may be skewed by the fact that the Belgian data provided in 2004 only covered a very small proportion of Belgian FTEs (15% vs. 73% for 2005) and 74% of Central and Eastern Europe. In 2005, cars were the preferred means for both commuter and business travel. This was particularly true for Belgium's FTEs regarding commuter travel (65%), but not for Central and Eastern Europe, where commuters overwhelmingly favoured public transportation (trains, buses = 95%) over cars.

Indicator 3 (Total paper consumption)

Paper consumption in 2005 barely changed over 2004, and the majority of the paper used was new ECF/TCF paper. In Belgium, relative paper consumption was up somewhat (4.1%), while it fell in Central and Eastern Europe (-2.8%).

Indicator 4 (Total water consumption)

Relative water consumption was up 31.2% over the year, although the data may have been skewed again by the fact that the 2004 figure represents only half of Belgium's FTEs and 74% of Central and Eastern European FTEs. In Belgium, water consumption per FTE was up 16.7%, while it rose by 43.2% in Central and Eastern Europe. Most of the water used in both regions is drinking water.

Indicator 5 (Waste)

Total waste per FTE was more or less stable in 2005 vis-à-vis 2004. A little over half of the waste was separated and recycled, followed by a third of the total being disposed of in landfills with the remainder being incinerated. On a regional level, waste per FTE in Belgium dropped 4%, while waste recycling has been stepped up to cover 81% of waste, with the rest being incinerated. In Central and Eastern Europe, however, waste per FTE went up 16%, and most waste is still disposed of in landfills (65%).

Indicator 6a (Direct greenhouse gas emissions)

Direct greenhouse gas (GHG) emission per FTE was down almost 16% in 2005 vis-à-vis a year earlier. This was also reflected on a regional basis: in Central and Eastern Europe the relative figure declined by 12%, while in Belgium, it dropped by 22%.

ARGUS: KBC's environmental centre

ARGUS, formerly known as the *Stichting Leefmilieu*, is an independent Belgian not-for-profit organisation based in Antwerp, which was established in 1970 by KBC in response to the need to combat the side effects brought about by society's wealth and prosperity that it has helped to cultivate. Until the end of 2005, KBC was the sole financial and logistical backer of ARGUS, which is entirely staffed by five KBC employees². It is supervised by an independent board chaired by Baron Rudi Verheyen, Emeritus Professor of the University of Antwerp and one of the pioneers in environmental studies. Other members of the board include representatives from universities, NGOs, labour organizations and public authorities. It aims to contribute to sustainable well-being by providing objective information to the public via various channels, including a quarterly magazine, a special newsletter for SMEs and via its Web site (which also provides a link to an on-line documentation centre on the environment - www.argusmilieu.be), by means of education and other services, as well as arranging innovative initiatives to raise public awareness on environmental issues. Some examples of the initiatives that ARGUS organised in 2005 and early 2006 include lectures by Belgian and international experts on water policy³, an exhibition and walking 'treasure hunt' on the themes of quality of life and urban development⁴, Go4Nature (a wide-ranging project that brings together young people and supervisors/owners of nature reserves and woodlands)⁵, and the ARGUS photo contest. In 2005, ARGUS spent 220 000 euros to cover the costs of its initiatives. For 2006, the organisation has nearly double the amount at its disposal, providing for further growth.

² Cera, a core shareholder of KBC, and an important player in the world of Belgium's corporate philanthropy, is co-sponsoring ARGUS with KBC as of 2006. Hence, ARGUS has also introduced a new logo acknowledging this fact.

³ A series of three lunch meetings in the second half of 2005 focusing on '*Ecologie en economie in havengebieden*' ['Ecology and economy in port areas'], as well as a lecture by Ira Stern, Director of Watershed, Lands and Community Planning of the City of New York on 'New York City Water Supply, Watershed Protection Program' (March 2006).

⁴ '*Stad in beweging - in en om het Antwerpse Schipperskwartier*' ['City in motion - in and around the Antwerp Schippers Quarter'], second half of 2005.

⁵ www.go4nature.be



KBC's active **role** in the **society** at large

● Socially responsible bancassurance

As stipulated in its mission statement, KBC aims to be a 'warm and friendly bancassurer' in its relationship with retail and SME customers, focused on customer satisfaction. In addition to its employees and shareholders, customers also form a key stakeholder group for KBC. Hence, the social role played by KBC in the community is also reflected in the range of products and services it offers.

KBC seeks to pursue a socially responsible and customer-centric policy via **sustainable products and services:**

- Customer service departments have been set up at almost all of the KBC entities covered in this report to handle customer-specific matters. Customers may contact any of the KBC group companies by ringing the company's call centre or via another channel, including by means of e-mail or on-line form available on group company Web sites with any questions, complaints and/or suggestions they may have. Specific complaint-handling procedures are in place at all group companies, including electronic databases for employees to register and manage complaints. For complaints received in writing, the routing system stipulates that customers should be sent a letter acknowledging receipt of the complaint in good time, and that the complaint should be handled within 15 business days, unless it is a complicated one and requires more time. In Belgium, approximately 6 000 complaints are received per year, of which approximately 40% are justified.
- Customer satisfaction surveys: In mid-2005, a customer satisfaction survey was carried out by KBC Bank in Belgium. The survey showed that customers are generally very happy with their KBC Bank branch. Compared to 2004, the number of highly satisfied customers went up from 62% to 66% in 2005. Moreover, no less than 77% of the customers said they would recommend KBC to friends and acquaintances, a very good result and again an increase on the 2004 figure (74%). In the Central and Eastern European group companies, customer satisfaction surveys have been conducted less frequently to date, but the findings of the most recent surveys have generally been positive. For example, for the Hungarian banking subsidiary, 94% of the banking customers in 2005 were satisfied to very satisfied with the services provided (up from 87% a year earlier); in Poland, 87% of the insurance subsidiary's customers and 74% of the banking subsidiary's customers declared their satisfaction with the respective institutions.

- Banking and insurance products and services for senior citizens:
 - Banking: Special exemptions from electronic payment charges for older customers and customers with serious handicaps (Belgium), special bank accounts for senior citizens/retired persons (Czech Republic, Hungary)
 - Insurance: Motor insurance policy for senior citizens – in Belgium, senior drivers get a lifelong guarantee that KBC will continue to insure them, provided they have a good track record as prudent drivers; in Poland, senior drivers can receive a special discount of up to 20% in motor third party liability. Special life assurance policies providing supplementary income (Poland, Czech Republic)
- Banking and insurance products and services for young people:
 - Special bank accounts, credit cards, mortgages and insurance policies (including motor insurance) are available in both Belgium and Central and Eastern Europe
- Banking services for low-income citizens are provided in both Belgium and Central and Eastern Europe.
- Sustainable and socially responsible investment (SRI) funds, including a specific ecological focus (in Belgium: see boxed text on p. 36 and Appendix IV).
- Initiatives aimed at senior customers: PC training courses to introduce senior customers to the Internet (Belgium, Czech Republic), Senior Road Shows to introduce senior customers to various payment techniques, from bank cards to electronic bancassurance (in Belgium).

● Community involvement

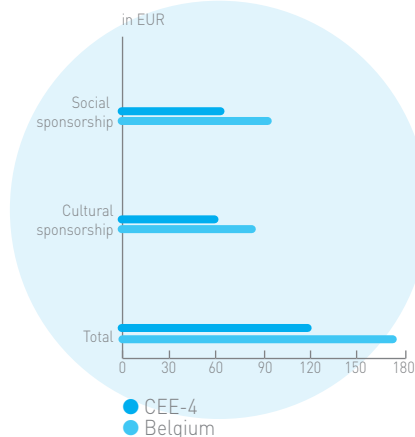
By providing funds and other assistance to various community projects, KBC strives to improve the general welfare and working environment in the areas in which KBC operates.

● KBC's budget for community endeavours

	2004	2005	No. of FTEs (2005)	Cost/FTE in 2005
Philanthropic deeds/social sponsorship*	4.21 m EUR	2.93 m EUR	40 522	72 EUR
Cultural sponsorship (the arts)	1.97 m EUR	2.68 m EUR	40 522	66 EUR
Total	6.18 m EUR	5.61 m EUR	40 522	138 EUR

* includes donations to philanthropic causes, public safety campaigns and sports activities having a social focus

● COST/FTE of community activities (2005)



KBC's policy on community engagement has traditionally been based on close collaboration and dialogue with the various stakeholders: not only has our policy been steered by the numerous requests for financial support on account of KBC's visibility as a large financial institution, but also by our desire to demonstrate our commitment to act responsibly towards the community.

According to the table above, KBC's total budget for community-related projects in Belgium and Central and Eastern Europe was reduced by 9% between 2004 and 2005, mainly on account of a drastic cut in the sports sponsorship budget in the Polish arm. On the other hand, the budget for cultural sponsorship was up 36% over the same period, somewhat offsetting the cut in the budget for philanthropic/social sponsorship. The following bar chart shows that, in general, the cost per full-time equivalent (FTE) was higher in Belgium than in Central and Eastern Europe (CEE-4) in 2005.

Initiatives:

Philanthropic deeds/social sponsorship

In its two home markets, KBC is actively engaged in initiatives for community building and with self-help groups involved in the restoration of the urban social fabric and the integration of disadvantaged persons through co-operation with local community centres and other social associations. These projects - mostly small in scale - are designed to promote social integration over the long term at the local level and to help towards community development. Much attention is also focused on health and prevention issues and education. Examples from each of the countries are provided below:

Belgium:

- Collaborative efforts with neighbourhood organizations to lower the threshold between the company and the surrounding community and raise awareness amongst KBC employees over the social plight of the lower-income neighbourhoods in which KBC's main administrative buildings are significantly present (in Brussels and Antwerp)
- Long-term donations to *De Sleutel* particularly for their drug prevention programmes aimed at young people
- *Levenslijn* (a charity that organises fund-raising campaigns for various health-care-related issues)
- *Kom op tegen Kanker* (the anti-cancer campaign)
- Road safety and children's health and safety themes

Czech Republic and Slovakia:

- Co-operation with Czech NGOs to help Southeast Asia's Tsunami victims and to rebuild schools destroyed in the afflicted area
- Goodwill Committee-Olga Havel Foundation: providing financial support for the Education Fund - scholarships for disabled or socially handicapped secondary school students
- Sponsorship of foundations/civic associations to help disabled people to better integrate themselves in society, general partner of the international championship for disabled athletes
- LIFE 90 - partnership with an NGO to provide Internet training for senior citizens
- Partnership with regional orphanages and support of regional hospitals, including provision of respiratory monitors and other equipment for new-born infants
- Long-standing support of UNICEF, financial support for associations providing childcare and child safety initiatives, anti-cancer initiatives
- Sponsorship of *Ekofilm* - films to raise public awareness on environmental issues
- Co-sponsor in Slovakia with the ECOPOLIS foundation to encourage citizens to improve their neighbourhood/public spaces, strengthening community ethos

Hungary:

- Magic Cure Programme: purchase of medical appliances for children's hospitals
- Sports events, including for disabled persons
- Sponsorship of the National Paralympics Committee

Poland:

- Donations to Tsunami victims
- Financial support of cardiology associations, including to help cover the costs of purchasing a USG probe for children, partnership with orphanages
- Sponsorship of international conference on human rights (commemorating 25th anniversary of *Solidarnosc* and 30th anniversary of CSCE/Helsinki Final Act)
- Safety campaigns, including nationwide campaigns aimed at the improvement of safety and rescue operations in mountains and at lakes, as well as participation in projects to promote safe driving
- Promotion of higher education in the insurance field (sponsorship of a nationwide competition for the best MA and PhD dissertation in the field of insurance)

Cultural sponsorship

Cultural sponsorship is well established in both Belgium and Central and Eastern Europe. KBC regularly supports a number of cultural and musical festivals, including the following:

Belgium:

- Key sponsor of a major Belgian exhibition and cultural event in the city of Mechelen, entitled '*Mechelen, Stad in Vrouwenhanden*' (Mechelen 2005, City in Female Hands)
- Founding sponsor of the *Gouden Vleugels* project to help promote young, would-be classical musicians in Flanders by, among other things, arranging master classes and musical competitions for them. One of the prizes sponsored by KBC at the competitions is the KBC Music Prize, which was presented for the second time in January 2005.
- Exhibit dedicated to books entitled 'Fully Booked', within the framework of the 2005 Antwerp Book Capital event at KBC's Rockoxhuis (see boxed text).

Czech Republic and Slovakia:

- Sponsorship of film awards and film festivals (e.g., *Český Lev* - Film Academy awards)
- Support for Prague's Academy of Arts, Architecture and Design

Hungary:

- Sponsorship of the Young Opera Friends Association (in 2006)
- Support for the multi-cultural Island Festival for promotion of cultural diversity

Poland:

- As part of the celebration of 25th anniversary of the *Solidarnosc* movement, financial backing for a series of Polish cultural events held in Brussels in September and October 2005
- Sponsorship of an exhibition of the works of the Belgian woodcut artist, Frans Masereel in Cracow in 2005
- Sponsorship of the Rozmaitości Theatre, specialising in avant-garde performances

The Rockoxhuis, Antwerp's unique museum

The Rockoxhuis was constructed in the 17th century as the private residence for the mayor of Antwerp and art collector of the time, Nicolaas Rockox. This patrician edifice now serves as a museum and houses a wealth of paintings, furniture and sculptures, as well as an evocation of an early 17th-century town garden.

Purchased by KBC in 1970, the museum continues to be in the hands of KBC, but is open to the general public. Each year, a special exhibit takes place, focusing on a particular facet of the museum's collection. In 2005, the Rockoxhuis served as a backdrop for a well-received exhibit dedicated to books entitled 'Fully Booked', within the framework of the Antwerp Book Capital event. (cf. www.rockoxhuis.be)

Volunteerism – employee involvement

KBC endeavours to stimulate volunteer initiatives amongst its employees in the areas of social sponsorship and philanthropy.

In Belgium, this includes:

- providing a subsidy to employees who devote their free time to organisations dedicated to care for the handicapped, childcare, home assistance, Third-World initiatives, immigrant integration or neighbourhood improvement schemes (1 250 euros per employee and their organisation)
- calling upon employees to take part in a number of social and health-care projects, e.g., the fund-raising telethons for *Kom op tegen Kanker*; the anti-cancer campaign; multi-cultural lunches arranged by neighbourhood associations in Brussels (*Anders gaan eten* – 'Eating differently') to stimulate contacts between KBC and the neighbourhood

- serving as a key supporter of the Belgian Raiffeisen Foundation (BRS) via the active participation in an informal group composed of KBC employees in various international projects (see boxed text below).

In Central and Eastern Europe, some of the group companies there have also motivated employees to contribute to community-oriented initiatives, such as:

- individual financial donations to the Healthy Nation Fund (Hungary)
- fund-raising amongst Polish banking employees for donations to orphanage near Warsaw.



● KBC and microfinance: an update

Belgian Raiffeisen Foundation

The Belgian Raiffeisen Foundation (BRS) was established in 1992 to serve as a conduit for development co-operation. Currently under the auspices of Cera, a co-operative financial group and a reference shareholder of KBC, its mission is twofold: to collaborate with microfinance institutions in the developing world, by offering financial assistance and training and consultancy in banking and insurance matters based on the co-operative movement, and to raise awareness in Belgium through various communication channels about BRS' efforts to help eradicate poverty in the Third World.

KBC has played a special role in BRS ever since its foundation, not only due to its historical and financial link to Cera, but also via the support of KBC staff. Indeed, BRS is open to all current and retired KBC employees to take active part in BRS' sustainable micro-finance projects in Africa, Latin America and Asia, as well as in fund-raising and other campaigns in Belgium to promote North-South dialogue at the grassroots level. At the end of 2005, about 320 KBC employees were members of *KBC steunt BRS* (KBC supports BRS). The ICT Division at KBC deserves special mention as it launched ICT4BRS on 1 January 2005, an initiative involving 22 ICT volunteers who offer IT-related assistance to BRS projects, including supplying/installing IT hardware and software and providing IT expertise to NGOs working with BRS. Additionally, KBC agreed to donate a substantial number of second-hand hardware (PCs) in 2005-2006 to an organization entitled Close the Gap, which aims to help narrow the digital divide between industrialised and developing countries and is working in partnership with BRS on various micro-finance projects.

(cf. www.cera.be/brs, www.closesthegap.be)



Impulse Microfinance Investment Fund

KBC is a shareholder in Incofin, a Belgian investment company founded as a 'co-operative association with a social purpose'. Incofin invests in and provides know-how to micro-companies, SMEs and microfinance institutions in the developing world in order to support sustainable and profitable entrepreneurship. In December 2004, KBC helped to set up the Impulse Microfinance Investment Fund with Incofin and three other partners, with half of the starting capital of 5 million euros coming from KBC (still the largest contributor to date). By the end of 2005, the fund had doubled its capital to 10 million euros via a private placement. This is the first private-investment fund of its kind in Belgium. The closed-end fund will have a life of 12 years and aims to earn both a financial and a social return ('double bottom line'), investing in commercially viable microfinance institutions and improving the accessibility of lending facilities for low-income entrepreneurs. Moreover, it aims to serve as a bridge between capital markets of the industrialised world and emerging markets in less developed countries. On account of these objectives, the fund was awarded the 2005 International Year of Microcredit label by the United Nations Capital Development Fund (UNCDF).

At year-end 2005, the fund's investment portfolio stood at 8.73 million euros, spread across eleven microfinance institutions (MFIs), of which 7 in Latin America (Peru, Bolivia,

Ecuador and Nicaragua), one each in Southeast Asia (Cambodia) and in Africa (Benin) and two in Central and Eastern Europe (Kosovo and Azerbadjian). These MFIs in turn provided loans to 440 000 private individuals and small enterprises for an average amount of 591 euros. Impulse has had no lack of new investment files and it is hoped that more capital can be attracted for the fund. Indeed, the fund currently has recourse to 2 million euros in the form of a loan from the *Belgische Investeringsvennootschap voor Ontwikkelingslanden* (Belgian Investment Company for Developing Countries), with the aim of borrowing another 8 million euros in 2006 to achieve a total of 20 million euros in capital.

The microfinance industry has grown by leaps and bounds. About 90 million people around the world have some form of access to microfinance currently, but, according to the UNCDF, the potential level is 400-500 million people.

(cf. www.incofin.be)

INDEPENDENT ASSURANCE REPORT

To the stakeholders of KBC Group

Engagement and responsibilities

We have been engaged by KBC Group NV ("KBC") to perform a limited assurance engagement on the KBC Corporate Social Responsibility Report 2005 ("the Report"). The scope of the Report, including any inherent limitations that could affect the reliability of the information contained therein, is set out in § 1.2 of the Report. The Report covers KBC's activities in Belgium and Eastern Europe (Czech Republic, Slovakia, Poland, and Hungary). The Report is the responsibility of the management of KBC. Our responsibility as independent auditor is to provide limited assurance about the reliability of the quantitative information contained in the Report and about whether the description of policy and measures in the Report, properly reflects the efforts made in 2005. A limited assurance engagement provides less assurance than an audit.

Criteria and reporting principles

There are currently no generally accepted criteria for reporting sustainability performance in Belgium. KBC applies its own internal sustainability performance reporting criteria, which are primarily derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative ("GRI"). This is detailed in §1.2 of the Report.

Scope of work performed

We conducted our procedures in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000"): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and the Code of Ethics, issued by the International Federation of Accountants ("IFAC").

The comparative figures in the Report did not form part of our review.

We have performed the procedures deemed necessary to provide a reasonable basis for our conclusions. Our principal procedures can be summarized as follows:

- Obtaining an understanding of the sector and its relevant social responsibility matters specific for the organisation;
- Assessing the acceptability of the criteria and reporting principles used and significant estimates and calculations made in preparing the Report;
- Performing analytical procedures at both Group and identified Business Unit level to assess the quantitative data;
- Examining, on a test basis, evidence supporting the descriptive and quantitative data provided, and studying relevant company documents;
- Conducting interviews with responsible company officers in Belgium, Czech Republic, Slovakia, Poland, and Hungary, mainly for the purpose of assessing the plausibility of the descriptive and quantitative data in the Report;
- Evaluating the overall view presented in the Report, in part by testing its contents against the guidelines as issued by the GRI.

Conclusions

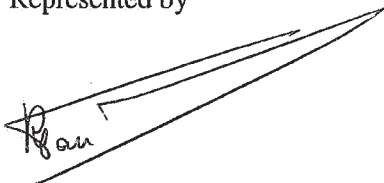
Based on the procedures performed, and considering that the prior year comparative information contained in the Report did not form part of our scope, nothing came to our attention that causes us to believe that:

- The description of policy and measures in the KBC Group Corporate Social Responsibility Report 2005 do not properly reflect the efforts made in 2005; and
- The quantitative data included in the KBC Group Corporate Social Responsibility Report 2005 are not free of material misstatement.

Brussels, 14 June 2006

Ernst & Young Bedrijfsrevisoren BCV (B 160)

Represented by



Rosita van Maele
Partner



Harry Everaerts
Partner

GRI content index

This report is based primarily on the Global Reporting Initiative (GRI) guidelines. The GRI content index below enables a quick look-up of the relevant indicators that are covered herein.

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¹ NR = not reported

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● Appendices

Appendix I: General KBC information

A. Group-wide financial results – full-year 2004 and 2005

The information below is provided in more detail in KBC Group's 2005 Annual Report.

● Group income statement

(in millions of EUR)	FY 2004 ²	FY 2005
Net interest income	3 833	4 348
Gross earned premium, insurance	5 158	3 550
Dividend income	231	235
Net gains from financial instruments at fair value	725	513
Net realised gains from available for sale assets	503	458
Net fee and commission income	1 404	1 819
Other income	479	574
Gross income	12 333	11 498
Operating expenses	-4 944	-4 914
Impairments	-365	-103
- on loans and receivables	-198	-35
- on available-for-sale assets	-150	6
- on goodwill	0	-20
- other	-17	-54
Gross technical charges, insurance	-4 633	-3 059
Ceded reinsurance result	-68	-69
Share in results, associated companies	22	16
Profit before taxes	2 345	3 369
Income tax expense	-537	-925
Minority interests	-193	-194
Net profit	1 615	2 249

² *Pro forma* figures: this means that the figures are based on a combined KBC-Almanij entity. The IAS 32 IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means that they are not fully comparable with the 2005 figures.

● Group balance sheet

in millions of EUR	31-12-2004 ³	31-12-2005
Cash and balances with central banks	1 553	2 061
Treasury bills and other bills eligible for rediscounting with central banks	8 078	2 649
Loans and advances to banks	38 463	45 312
Loans and advances to customers	111 177	119 475
Securities	98 862	125 810
Derivative financial instruments	15 376	18 932
Portfolio hedge of interest rate risk	0	59
Investment property	169	313
Reinsurers' share in technical provisions, insurance	258	282
Accrued income	3 504	2 992
Other assets	2 435	2 825
Tax assets	671	545
Investments in associated companies	1 228	989
Goodwill and other intangible fixed assets	1 086	1 537
Property and equipment	2 300	2 120
Total assets	285 163	325 801
Deposits from banks	55 083	60 821
Deposits from customers and debt securities	157 712	171 572
Derivative financial instruments	17 728	24 783
Portfolio hedge of interest rate risk	0	0
Gross technical provisions	13 259	14 779
Liabilities under investment contracts	3 931	7 615
Accrued expense	2 743	2 326
Other liabilities	12 588	18 674
Tax liabilities	672	928
Provisions for risks and charges	580	522
Subordinated liabilities	6 768	6 314
Total liabilities	271 064	308 335
Total equity	14 099	17 466
- Parent shareholders' equity	12 328	15 751
- Minority interests	1 771	1 715
Total liabilities + equity	285 163	325 801

● Key ratios

	FY 2004 (Pro forma*)	FY 2005 (IFRS 2005)
Cost ratio, banking, asset management and European private banking	65%	60%
Combined ratio, non-life insurance	95%	96%
Tier 1 ratio, banking and European private banking, end of period	10.1%	9.4%
Solvency ratio, insurance, end of period	347%	385%
Return on equity, group	14%	18%

* Pro forma means that the figures are based on a combined KBC-Almanij entity. The IAS 32 IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means that they are not fully comparable with the 2005 figures.

³ Pro forma figures: this means that the figures are based on a combined KBC-Almanij entity. The IAS 32 IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means that they are not fully comparable with the 2005 figures.

B. Group-wide staffing levels (as at year-end)

● Number of staff worldwide (in FTEs*, except where noted)

	FY 2004 (<i>pro forma</i> *)	FY 2005	Change
Total	51 883	51 655	-0.4%
Staff expenses	2 868 m EUR ⁴	2 849 m EUR	-0.6%
Breakdown by activity			
Banking	36 423	36 037	-10.6%
Insurance	8 409	8 667	3.1%
Asset management	319	382	19.7%
European private banking	3 715	3 690	-0.7%
Gevaert	853	270	-68.3%
Holding-company activities	2 164	2 576	19.0%
Breakdown by country/region			
Belgium	19 091	19 016	-0.4%
Central Europe	26 117	26 505	14.9%
Rest of the world	6 675	6 101	-8.6%

* *Pro forma* means that the figures are based on a combined 'old KBC'-Almanij entity.

The figures in the table above correspond to the data provided in Notes 12 and 13 of the 2005 Annual Report (cf. www.kbc.com) and represent the average number of full-time equivalents (FTEs) employed during the year. For companies consolidated according to the method of proportionate consolidation, the proportionate share of the workforce is shown. This accounts for the discrepancy between these figures and the data provided in Chapter 5 and Appendix V of this report, which are based on the total FTEs in KBC's Belgian and Central and Eastern European entities as at year-end 2004 and 2005 and no account is taken of the workforce of companies consolidated using the method of proportionate consolidation.

Appendix II: KBC's Principles for socially responsible business

KBC aims through its activities to contribute to the economic, social and ecological advancement of the communities it serves. Accordingly, it conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations. It also takes account of changing societal norms, norms which generally foreshadow subsequent legislation.

For KBC, a primary concern is to meet the needs and safeguard the interests of its customers, its shareholders, its employees and the communities in which it operates. In its dealings with these stakeholders, KBC observes principles of fairness, reasonableness, openness, transparency and discretion, whilst ensuring privacy. These principles are incorporated into a specific code of conduct which governs all KBC's activities, but especially its lending and asset management businesses, as well as its human resources and facility management projects.

KBC Bank has a social responsibility to meet its customers' borrowing requirements at reasonable, market-conform rates of interest which compensate it for the credit risk it takes and other lending-related expenses. Before granting any credit, KBC will conduct a preliminary analysis not only of the associated, purely financial and economic aspects of the credit, but also of the relevant social and ecological aspects. This analysis makes it possible, among other things, to offer customers the credits and credit products that are best suited to their needs and financial resources.

Recommendations and decisions for asset management purposes are always formulated solely with the customer in mind and in keeping with a general investment strategy that is based on a thorough analysis of all available macro-economic, sectoral and company information, as well as the risk profile of the customer concerned and/or of the relevant investment products. The customer's risk profile is determined with all due care in consultation with the customer and is adjusted where necessary to take account of his or her changing financial, social and philosophical position. To ensure it can satisfy the broadest possible range of investment preferences, the bank develops investment products with diverse risk profiles and features, including those that

⁴ The reference figure for 2004 is not fully comparable with the 2005 figure, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.

reflect sustainable and ethical investment principles. To support its investment policy in this regard, KBC Asset Management has set up its own research team to screen the sustainability of the policies pursued by various companies and countries (with a view to investing in government bonds). KBC Asset Management is assisted in this endeavour by an External Advisory Board. The results of this 'ethical screening' are used by KBC Asset Management not only in the management of its ethical funds, but are to produce a semi-annual publication (available at: <http://www.kbcam.be/sustainableinvestment/>).

Where insurance is concerned, KBC will, wherever the competitive room to manoeuvre allows, apply appropriate techniques to counter the 'moral hazard' dilemma (i.e., a tendency of persons to exhibit riskier behaviour once insurance is taken out). KBC will ensure that its products encourage socially desirable or acceptable behaviour where risk-taking is concerned.

KBC is aware that in many cases, particularly in the event of sickness, disability or death, money cannot compensate for pain and suffering. Consequently, it feels that it has a social duty to try and preclude such pain and suffering where possible by means of an accident-prevention policy. In addition, where needed, KBC furnishes personal and professional assistance to accident victims, guiding them in their search for the best way to return to mental and/or physical health.

KBC will make an effort to include in certain products an explicit element of solidarity, which should make it possible to provide some measure of insurance for risks which would not normally be insurable. KBC is a firm believer in the principle that segmentation should not lead to discrimination; i.e. it should never lead to large groups of prospective policy-holders being shut out on the basis of criteria they have no control over.

In its dealings with personnel, KBC pursues an equal opportunity policy and resolutely avoids any form of discrimination. The recruitment, selection, promotion and remuneration of its employees occurs on the basis of each individual's merits, such as his or her knowledge and skill, development potential, added value and the responsibilities he or she shoulders. KBC aims to forge a lasting working relationship with its employees, one characterised by balance between the individual's professional commitment which contributes to the company's capabilities and his or her personal development in the broadest sense of the word.

To achieve this aim:

KBC offers a competitive pay package, providing employees with a fair pay for their work and their contribution to the company's results;

KBC seeks to be a caring employer, even when problems arise;

KBC endeavours to enable employees to balance their professional and private lives and consequently takes the requisite initiatives with regard to flexible working arrangements, employee mobility and social schemes;

KBC provides sound career guidance and top-quality training, so that employees are given adequate opportunities to further their careers and develop their skills;

KBC provides its employees with an attractive working environment and the necessary resources to be able to perform their job efficiently;

KBC seeks to employ people in its personnel department who provide prompt, customer-friendly and professional service.

KBC also aims to provide clear, transparent information and considers good social dialogue as a basic building block in its corporate culture. For this reason, KBC promotes the efficient and direct flow of information throughout the organization via such tools as an intranet. All this is intended to nurture and put into practice the values that KBC and its employees find important. These values are primarily: openness and honesty in dealings with one another, a mutual respect and collaboration on projects, which is characterised by a spirit of helpfulness and professionalism.

KBC is aware that the rational use of natural resources – even for a service-providing, informa-

tion-processing enterprise – can help to alleviate the burden on the environment. It will therefore ensure that its resources are as ecologically sound and used as rationally as possible, whether this concerns water and energy use, the consumption of products, waste-prevention and –processing or transportation.

KBC endorses sustainable building principles and in providing accommodation for its workforce takes account of any possible environmental impact this may have, as well as of employee comfort and efficiency.

It will require its suppliers of products and services to adopt a similar approach, based on full compliance with the relevant laws and the implementation of environmental conservation systems in keeping with the ISO 14000 family of standards. Fairness will be a feature of all of KBC's dealings with its suppliers.

KBC makes a commitment to the communities in which it operates, not only by funding social, cultural or scientific initiatives, but also by making competencies or facilities, for instance, available where needed. In this way, KBC aims not only to help enhance the prosperity of the communities it serves, but also to improve their well-being. KBC encourages its employees to become socially involved.

Appendix III: Equator Principles

On 26 January 2004, KBC officially adopted the Equator Principles, a set of voluntary guidelines developed to address environmental and social issues that may arise in financing large-scale projects. These guidelines are based on well-established IFC and World Bank policies and guidelines. The adoption of the Equator Principles reinforces KBC's longstanding commitment to environmental and social responsibility in all its activities, both domestically and internationally. The Principles were launched by a number of banks in June 2003. Today over 40 financial institutions have adopted the Principles.

The Equator Principles Financial Institutions are currently in the process of reviewing the Equator Principles. The revisions to the existing Equator Principles are being undertaken to 1) reflect implementation experience of the past 3 years, 2) incorporate comments from various stakeholders received during that period and 3) to ensure incorporation of and consistency with the IFC Performance Standards, adopted by the Board of the IFC on 21 February 2006 to replace the IFC Safeguard Policies, referred to in the existing Equator Principles. It is expected that the amended Equator Principles will become applicable as of the end of June or beginning of July 2006. For more information, see www.equator-principles.com.

Applying the Principles

At KBC, the Equator Principles apply equally to KBC's project finance business, which is handled by 50 professionals out of seven centres (Dublin, London, Brussels, New York, Hong Kong and Sydney) and to the project finance units set up at four subsidiaries (K&H, CSOB, Kredyt Bank and IIB).

By adopting these Principles, KBC seeks to ensure that the projects it finances are developed and operated in a manner that is socially responsible and reflect sound environmental management practices. The focus is on transactions within the infrastructure, energy (power, renewables and oil & gas) and telecommunication sectors. As an 'Equator Bank', KBC will not provide loans to projects where the borrower will not or is unable to comply with KBC's environmental and social policies and processes.

KBC applies the Equator Principles to all of its project finance activities around the world that entail transactions with a capital cost above 50 million USD. In accordance with the parameters of the Equator Principles, the Principles themselves do not need to be applied to transactions below this threshold. However, KBC requires each loan officer to analyse any such project with a high level of social and environmental vigilance.

KBC is usually involved in project-finance transactions either as an arranging bank or as a

member of a bank syndicate. Irrespective of the position of non-Equator Banks in the syndicate, KBC requires compliance with the Principles. KBC always sees to it that adherence to the Equator Principles is included in any term sheet submitted to a borrower or project sponsor. Special attention is also given to the loan documentation process in order to make sure that the appropriate environmental and social clauses are incorporated. When KBC appoints legal advisers, we request them to verify that the loan documentation requires the borrower to maintain compliance with the Environmental Management Plan (EMP) and the reporting of any material breaches. These are standard terms and conditions for all our project finance transactions.

Implementation and training

Today, the Equator Principles are fully implemented at KBC. Specific Equator Principles procedures have been developed and incorporated in the credit procedural manual, to be applied to any project exceeding 50 million USD. It should be noted that such projects are initially categorised by the project finance officer as either 'A' 'B' or 'C', and is then reviewed by the credit department⁵. The final decision on the project category is taken by the credit committee. Moreover, when KBC works with an independent technical adviser, we ensure that the scope of the adviser's tasks includes the requirement to provide us with expert assessment on environmental and/or social considerations regarding the project, including feedback with respect to the potential environmental or social impacts, the environmental management plan and overall compliance of the project with the Equator Principles. The reasons for categorisation are documented during this process. In accordance with the parameters of the Principles, KBC always requires an environmental impact assessment to be drawn up for projects classified as 'A' or 'B'.

KBC has appointed a senior manager within the Project Finance Department as co-ordinator responsible for all Equator Bank matters. All project finance officers were trained on how to apply the Equator Principles. Furthermore, a wider group of executives, including credit officers and relationship managers, were briefed on the Principles.

Projects in 2005

The table below provides the number and share of the transactions which were approved and concluded by KBC in the year 2005.

2005	New transactions		Refinancing transactions
	Number	As % of 2005 project finance lending volume	
Category A	1	5%	-
Category B	8	41%	-
Category C	12	54%	5

In the above table, the 'A' project represents a transaction in the energy sector (power plant). The 'B' projects entail projects in the energy (mainly power plants) and infrastructure sectors (mainly toll roads in Europe). The 'C' projects refer to the financing of wind farms and projects within the telecom and infrastructure sectors involving light construction works. If the refinancing of existing assets (which involves no expansion or construction) - usually categorised by KBC as C projects - were included in the above table, the number of C projects would rise to 17. Excluding the refinancing operations, the aggregate costs of development with regard to the above new projects came to approximately 19 billion EUR.

Although a number of transactions were rejected in 2005, none of them were primarily on account of environmental or social concerns. As our lending executives apply the Principles strictly and at an early stage, any transaction that is not or cannot be made to comply with the Principles is turned down and not submitted for approval to the credit committee.

⁵ Category A: projects with significant adverse environmental and social impacts which are sensitive, diverse or unprecedented
 Category B: projects with (less) adverse environmental and social impacts which are site-specific, reversible and susceptible to mitigation
 Category C: projects with little or no environmental impact.

Appendix IV: SRI funds managed by KBC Asset Management

● Open-ended bond, cash or mixed funds

Fund	Description	AUM as at 31/12/2005
KBC Institutional Fund Ethical Euro Bonds (2002)	Invests in European government bonds issued by sustainable and socially responsible countries and companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts. For both institutional and private investors.	685.5 m EUR
KBC Institutional Fund Global Ethical Defensive 1 (2002)	Invests in international bonds and shares issued by sustainable and socially responsible entities. The screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts. For both institutional and private investors.	146.8 m EUR
KBC Institutional Cash Year-End (2004)	Invests in cash or other liquid assets of other euro-zone banks specifically geared towards the end of the year in which the remaining term to maturity is no more than 1 year. The banks are screened by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	30.8 m EUR

Open-ended equity funds

Fund	Description	AUM as at 31/12/2005
KBC Eco Fund World (1992)	Invests in an international selection companies that make a real effort to protect the environment. Audit and monitoring are carried out by an independent expert 'environmental advisory council'. The oldest investment fund in Belgium based on ecological criteria.	49.3 m EUR
KBC Eco Fund Water (2000)	Invests in companies active in water distribution and treatment.	20.0 m EUR
KBC Eco Fund Alternative Energy (2000)	Invests in companies active in the field of alternative (and therefore 'clean') energy.	29.1 m EUR
KBC Eco Fund Ethical Equity Euroland (2001)	Invests in sustainable companies in the euro zone. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	11.3 m EUR
KBC Institutional Fund Ethical Euro Equities (2000)	Invests in European shares of sustainable companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	24.8 m EUR
IN.Flanders Index Fund	Invests in the 60 largest employers in Flanders. The fund is a model for innovative remuneration arrangements: it allows options to be written on this fund, which can then be distributed to employees of the social profit sector and unlisted companies.	50.1 m EUR

Closed-ended or 'click' funds

Fund	Description	AUM as at 31/12/2005
KBC Click Ethiclick 1 (2000)	Invests in a basket of 16 shares of sustainable and socially responsible companies.	11.6 m EUR
KBC Click Solidarity 1 Kom op tegen kanker (2001)*	Invests in a basket of 16 shares of sustainable and socially responsible companies. 3% of any increase in the return is transferred to the <i>Kom op tegen kanker</i> campaign supporting the research and prevention of cancer. The first ethical fund to be launched in Belgium with a solidarity aspect.	9.1 m EUR
KBC Click Solidarity 2 Levenslijn-Kinderfonds (2002)	Invests in a basket of 16 shares of sustainable and socially responsible companies. 3% of any increase in the return is transferred to the Levenslijn-Kinderfonds organization (promoting road safety for children).	3.2 m EUR
KBC Click Solidarity 3 Kom op tegen kanker (2003)	Same as KBC Click Solidarity 1 Kom op tegen kanker	2.6 m EUR
KBC EquiMax CRC Protection Fund 1 (2005)	Invests in a basket of 30 shares of sustainable and socially responsible companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	8.2 m EUR

(cf. <http://www.kbcam.be/sustainableinvestment/>)

* The KBC Click Solidarity 1 Kom op tegen kanker fund bears the Ethibel Excellence Label[®]. The Ethibel Excellence Label is registered in 15 countries of the European Union and is a guarantee that investments are being made in sustainable companies. The Label indicates that the investment fund is exclusively composed of companies selected on the basis of Ethibel's comprehensive research and evaluation model. For more information on Ethibel and the Ethibel Excellence Label, surf to www.ethibel.org.



Appendix V: Methodological notes to the employee indicators

With the exception of the majority of the figures reported in the basic indicators table, the data reported on in Chapter 5 are based on full-time equivalents or FTEs. Although the definition of FTE is not uniform across the countries reported on, for practical purposes, we have assumed that they are the same. Hence, there are some inherent limitations with respect to the quality of the data on account of the estimations, extrapolations and calculations used herein.

The figures provided in the table on **basic indicators** covers 81% of Belgian staff (15 462 FTEs out of 19 179 FTEs) and 99% of Central and Eastern European staff (25 060 FTEs out of 25 271 FTEs), or 91% of the combined total of 44 450 FTEs for KBC's two home markets as at 31 December 2005. This coverage applies to the entire chapter except where noted.

Absenteeism figures are calculated as the percentage of days absent due to sickness/maternity leave/accidents during the standard employment year (excluding weekends, national and banking holidays and unpaid leave). The standard employment year in each country differs, so that the total outcome is based on a weighted average according to the total number of FTEs per country. Moreover, the sickness figures exclude absences due to parental leave (caring for sick children).

Under **employee turnover**, the data on new recruits does not take account of those employees who transferred between group companies in 2005.

The **gender** comparison percentages are based on 74% of Belgian staff and 93% of Central and Eastern European staff.

Training costs covers 81% of Belgian staff and approximately 85% of Central and Eastern European staff. The number of Belgian FTEs covered is based on an average number of FTEs over 2005, whereas, for Central and Eastern Europe, assumptions were made on the basis of the year-end FTEs for each of the companies that provided data on the costs.

Appendix VI: Methodological notes to the environmental performance indicators

The number of FTEs relating to the indicators covered differ according to the indicator and by year. An explanation is provided below for the discrepancies. For comparison purposes, it is therefore preferable to focus on the relative figures (per FTE) rather than the absolute data.

Indicator 1 (Internal energy consumption)

Indicator 1 entails the overall amount of energy used within KBC's buildings. Not included is the fuel consumption for business travel, which is covered by indicator 2a (Business travel). Electricity consumption (indicator 1a) is broken down according to the suppliers of conventional 'grey' energy and 'green' energy (100% carbon-neutral). Indicator 1c concerns district heating, which is exclusively based on data from Central and Eastern Europe, where it still quite common.

2005 FTE coverage:

1a) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA).

1b) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H and Kredyt Bank).

1c) = Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA, not including all the branch networks)

2004 FTE coverage:

1a) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H and WARTA).

1b) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB and K&H).

1c) = Central and Eastern Europe (group companies of ČSOB, K&H and WARTA, not including all the branch networks)

Indicator 2 (Total business travel)

This indicator covers business trips undertaken by the company's employees. Travel undertaken by clients and suppliers are not included.

Road travel is defined as business trips undertaken in leased, business or private cars, documented by kilometre.

2005 FTE coverage:

2a) and 2b) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA, not including all the branch networks).

2004 FTE coverage:

2a) = Belgium (KBC Group NV/Bank/Asset Management at Brussels head office) + Central and Eastern Europe (group companies of ČSOB and K&H).

2b) = Belgium (KBC Group NV/Bank/Asset Management at Brussels head office), + Central and Eastern Europe (group companies of ČSOB, K&H and WARTA, not including all the branch networks).

Indicator 3 (Total paper consumption)

Total paper consumption is defined as the amount of paper ordered by the various group entities.

The following categories make up the largest share of paper used:

- office paper (multi-functional paper for copying and printing);
- letterhead/pre-printed forms;
- envelopes;
- continuous paper forms (account statements for clients, etc.);
- marketing material and publications (internal and external).

Indicator 3a concerns recycled paper. This includes only paper which is 100% recycled post-consumer waste.

Indicators 3b and 3c both represent new-fibre-type paper. Here, the issue which is environmentally relevant is whether the paper is still bleached using elementary chlorine (indicator 3c) or whether a more ecologically friendly technology is employed (indicator 3b). KBC bans the use of chlorine-bleached paper and purchases of ECF/TCF paper with 18% FSC fibres.

2005 FTE coverage:

3) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks + the tied but independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA, not including all the branch networks).

2004 FTE coverage:

3) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks + the tied but independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H and WARTA, not including all the branch networks)

Indicator 4 (Total water consumption)

KBC's water supply constitutes mainly drinking water.

Estimating the water volume used based on financial data is impossible because of significant differences between the prices charged in the various regions/cities covered. For this reason, only data based on meter readings are taken into consideration.

2005 FTE coverage:

4) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA, not including all the branch networks).

2004 FTE coverage:

4) = Belgium (head offices of KBC Group NV/Bank/Insurance/Asset Management/Lease, Centea, excluding the branch and agency networks), + Central and Eastern Europe (group companies of ČSOB, K&H and WARTA, not including all the branch networks)

Indicator 5 (Waste)

The waste indicator covers the total amount of waste produced by the KBC Group. The following waste categories are included in indicator 5:

- paper/cardboard
- residual waste/domestic-type waste
- special/hazardous waste
- electronic scrap

The following waste categories are not included:

- waste from staff restaurants (the total amount of waste they produce is not very relevant)
- waste from construction and building remodelling

2005 FTE coverage:

5) = Belgium (KBC Group NV/Bank/Asset Management/Lease, Centea, including all administrative offices and branch networks, but excluding Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H, Kredyt Bank and WARTA, not including all the branch networks).

2004 FTE coverage:

5) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H and WARTA, not including all the branch networks).

Indicator 6a (Direct greenhouse gas emissions)**2005 FTE coverage:**

6a) = Belgium (KBC Group NV/Bank/Insurance/Asset Management/Lease, CBC, Centea, including all administrative offices and branch networks, but excluding independent insurance and Centea agencies), + Central and Eastern Europe (group companies of ČSOB, K&H and Kredyt Bank and WARTA, not including all the branch networks).

2004 FTE coverage:

6a) = Belgium (head offices of KBC Group NV/Bank/Insurance/Asset Management/Lease, Centea, excluding the branch and agency networks), + Central and Eastern Europe (group companies of ČSOB, and K&H and WARTA, not including all the branch networks).

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