2002

# ANNUAL REPORT
# KBC BANK & INSURANCE GROUP

# KBC GROUP PROFILE

## AREA OF OPERATION AND ACTIVITIES

KBC is a multi-channel bancassurer catering mainly for retail customers and small and medium-sized enterprises, with a geographic focus on Europe. In Western Europe, the Group boasts a leading position in Belgium and currently has a limited presence in selected other countries, as well. In Central Europe, it is one of the premier financial services groups. KBC focuses on four areas of activity: retail and private bancassurance, corporate services, asset management and market activities.

## KEY FIGURES, BALANCE SHEET[1]

| (In millions of EUR) | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Total assets | 147 725.4 | 156 218.4 | 187 658.0 | 228 076.6 | 221 730.5 |
| Loans and advances to credit institutions, banking | 29 639.7 | 17 189.1 | 21 860.3 | 28 291.3 | 29 298.6 |
| Loans and advances to customers, banking | 53 412.2 | 64 634.0 | 78 936.2 | 87 046.9 | 98 775.1 |
| Securities, banking | 48 471.1 | 52 086.7 | 58 174.8 | 66 224.7 | 61 895.3 |
| Investments, insurance | 7 457.8 | 8 188.1 | 8 266.8 | 8 657.6 | 10 064.0 |
| Investments, unit-linked life assurance | 211.0 | 1 195.4 | 2 286.0 | 2 952.1 | 2 813.2 |
| Capital resources, Group | 11 486.5 | 13 737.3 | 16 216.9 | 16 817.4 | 16 681.9 |
| Capital and reserves, Group | 5 222.5 | 4 216.2 | 5 775.5 | 7 852.3 | 8 428.9 |
| Fund for General Banking Risks | 1 604.1 | 1 825.5 | 1 841.4 | 0.0 | 0.0 |
| Amounts owed to credit institutions, banking | 36 067.0 | 28 871.4 | 41 961.7 | 41 199.6 | 39 683.3 |
| Customer deposits and debts represented by securities, banking | 84 962.3 | 93 119.2 | 107 176.1 | 131 142.4 | 137 375.3 |
| Technical provisions, insurance | 6 598.4 | 7 045.4 | 7 101.8 | 7 367.0 | 8 860.6 |
| Technical provisions, unit-linked life assurance | 211.0 | 1 195.4 | 2 286.0 | 2 952.1 | 2 813.2 |

## KEY FIGURES, PROFIT AND LOSS ACCOUNT[1]

| (In millions of EUR) | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Net interest income (including dividends), banking | 1 960.0 | 2 156.8 | 2 437.3 | 2 661.9 | 3 203.9 |
| Profit (Loss) on financial transactions, banking | 731.5 | 636.2 | 835.9 | 884.8 | 1 013.6 |
| Net commission and other income, banking | 743.9 | 1 074.9 | 1 383.2 | 1 430.5 | 1 538.2 |
| Earned premiums net of reinsurance, insurance | 1 801.0 | 2 095.2 | 2 650.5 | 2 508.5 | 3 155.9 |
| Net technical charges, insurance | -1 727.6 | -2 125.7 | -2 334.8 | -1 960.9 | -2 274.0 |
| Investment income and charges, insurance | 476.5 | 676.9 | 420.8 | 256.8 | -33.2 |
| Other, insurance | 4.2 | 11.5 | 11.5 | 5.0 | 3.5 |
| Gross operating income, holding-company activities | -6.1 | -8.9 | -33.0 | -29.2 | -15.3 |
| **Gross operating income** | **3 983.4** | **4 516.9** | **5 371.2** | **5 757.3** | **6 592.7** |
| General administrative expenses, banking | -2 060.2 | -2 524.4 | -3 094.3 | -3 510.0 | -3 750.7 |
| General administrative expenses, insurance | -317.6 | -344.2 | -374.3 | -407.0 | -456.5 |
| General administrative expenses, holding-company activities | -1.8 | -2.2 | -3.6 | -3.8 | -4.5 |
| **General administrative expenses** | **-2 379.7** | **-2 870.8** | **-3 472.2** | **-3 920.8** | **-4 211.7** |
| **Value adjustments, banking** | **-449.0** | **-555.4** | **-324.3** | **-367.4** | **-663.0** |
| **Amortization of goodwill on consolidation** | **-11.6** | **-10.9** | **-10.9** | **-10.4** | **-20.5** |
| **Non-recurring result, insurance** | **167.6** | **16.0** | **25.3** | **7.8** | **9.5** |
| **Extraordinary result** | **-116.5** | **194.9** | **43.7** | **77.7** | **4.2** |
| **Income taxes** | **-382.0** | **-228.7** | **-311.5** | **-365.8** | **-511.1** |
| **Minority interests** | **-14.5** | **-92.2** | **-155.8** | **-156.1** | **-165.8** |
| Consolidated profit, Group share | 797.9 | 969.7 | 1 165.5 | 1 022.4 | 1 034.2 |
| - banking | 579.0 | 714.7 | 876.7 | 697.6 | 708.0 |
| - insurance | 226.7 | 271.3 | 320.6 | 359.9 | 348.1 |
| - holding-company activities | -7.9 | -16.3 | -31.8 | -35.1 | -21.9 |

## KEY FIGURES PER SHARE AND RATIOS[1]

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Number of shares outstanding ('000) | 296 905 | 297 772 | 299 296 | 301 857 | 302 239 |
| Earnings per share (in EUR) | 2.69 | 3.26 | 3.90 | 3.39 | 3.42 |
| Gross dividend per share (in EUR) | 1.09 | 1.23 | 1.42 | 1.48 | 1.52 |
| Net asset value per share (in EUR) | 32.3 | 33.8 | 35.2 | 33.8 | 31.6 |
| ROE[2] | 16.2% | 18.8% | 17.3% | 13.2% | 12.7% |
| ROA | 0.67% | 0.80% | 0.69% | 0.49% | 0.46% |
| Cost/income ratio, banking | 60.0% | 65.3% | 66.5% | 70.5% | 65.2% |
| Combined ratio, non-life insurance | 103.6% | 106.1% | 106.6% | 103.8% | 105.1% |
| Tier-1 ratio, KBC Bank | 7.2% | 7.4% | 9.5% | 8.8% | 8.8% |
| CAD ratio, KBC Bank | 11.5% | 12.8% | 16.0% | 14.7% | 13.7% |
| Solvency ratio, KBC Insurance (lower of ratios including and excluding unrealized gains and losses) | 311% | 298% | 307% | 318% | 306% |

## KEY FIGURES PER AREA OF ACTIVITY (31-12-2002)

| (%) | Share in Group profit | ROE |
|---|---|---|
| Retail and private bancassurance | 34.4% | 12.7% |
| Central Europe | 9.3% | 5.1% |
| Corporate services | 17.9% | 9.0% |
| Asset management | 10.4% | - |
| Market activities | 7.8% | 6.8% |
| Group item[3] | 20.2% | - |
| Total | 100.0% | 12.7% |

## LONG-TERM RATINGS (31-01-2003)

| | Fitch | | Moody's | | Standard & Poor's | |
|---|---|---|---|---|---|---|
| | Rating | Outlook | Rating | Outlook | Rating | Outlook |
| KBC Bank | AA- | *Stable* | Aa3 | *Stable* | A+ | *Negative* |
| KBC Insurance (claims-paying ability) | AA | *Stable* | - | - | A+ | *Negative* |

## WORKFORCE AND NETWORK[4]

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Workforce (FTEs) | 21 230 | 27 292 | 34 939 | 43 421 | 43 366 |
| Bank branches in Belgium (KBC Bank and CBC Banque) | 1 723 | 1 636 | 1 454 | 1 312 | 1 155 |
| Bank branches in Central Europe | - | 71 | 480 | 824 | 1 021 (including NLB) |
| Insurance agencies in Belgium (KBC Insurance) | 887 | 820 | 743 | 684 | 640 |

1 In 2001, the Fund for General Banking Risks (FGBR) was transferred to the reserves directly, without crossing the profit and loss account. The reference figures for the previous financial years are shown in these tables as published in previous years. In calculating ROE and ROA, the annual transfer to/from the FGBR was added retroactively to net profit and (for the ROE) the FGBR was added retroactively to capital and reserves. The figures on the results for 2000 do not include the realized capital gain on the sale of the participation in CCF.

2 The figure for return on equity takes account of the derogation authorized by the Belgian Banking and Finance Commission (BFC) regarding the immediate deduction from equity of goodwill paid on acquisitions between 1 January 1999 and 31 December 2001. If this goodwill were capitalized and amortized over a period of twenty years, the return on equity would come to 9.7% in 2002.

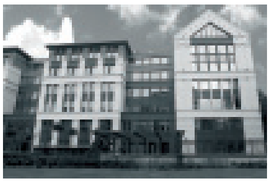
3 See the section on Group results entitled 'Breakdown by area of activity'.

4 For definitions and comments, please see the detailed tables and analyses elsewhere in this annual report. Bank branches in Central Europe: a subsidiary's branch network is included once KBC has a majority interest: 1999 relates to ČSOB; in 2000, IPB and K&H Bank were added; in 2001, Kredyt Bank and ABN AMRO Magyar Bank. In 2002, the total including NLB is shown.

ENTRANCE TO THE KBC HEADQUARTERS IN THE HAVENLAAN, where the senior management of the KBC Bank and Insurance Holding Company have their offices.

*'In 2002, KBC took up occupation of the last of the three buildings in the Havenlaan in Brussels. These three office buildings have a surface area of nearly 62 000 m² and provide workspace to some 3 900 employees.'*



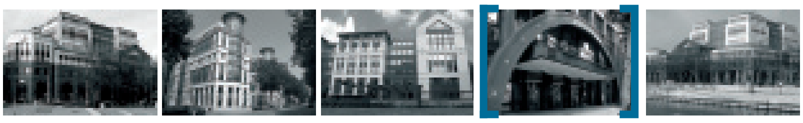


# ANNUAL REPORT
# KBC BANK & INSURANCE GROUP

## USE OF THE ANNUAL REPORT FOR THE PROVISION OF INFORMATION VIA SEPARATE DOCUMENTS:

On 17 March 2003, the Belgian Banking and Finance Commission granted the KBC Bank and Insurance Holding Company NV authorization to use the present annual report as a reference document to solicit savings from the public under Title II of Royal Decree No. 185 of 9 July 1935, by means of the procedure for the provision of information via separate documents, and this until such time as the KBC Bank and Insurance Holding Company NV publishes its next annual report. For the purpose of the above procedure, this annual report must be accompanied by a transaction memorandum in order to constitute a prospectus within the meaning of Article 29 of the Royal Decree referred to above. This prospectus will be submitted to the Banking and Finance Commission for approval in accordance with Article 29ter, §1, paragraph one, of Royal Decree No. 185 of 9 July 1935.

# REPORT OF THE BOARD OF DIRECTORS TO THE ANNUAL MEETING OF SHAREHOLDERS



Remi Vermeiren
President of the Executive Committee,
KBC Bank and Insurance Holding Company

*'The boundaries have been drawn. The tasks have been defined and assigned. The objectives have been clearly stated and updated. The mission is straightforward and feasible: KBC can and will be one of the most efficient and customer-friendly bancassurers in the EU.'*

# STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT OF THE EXECUTIVE COMMITTEE

The hope that 2002 would be a better and more tranquil year after a difficult and turbulent 2001 was not fulfilled. As the year advanced, economic growth continued to fall increasingly short of expectations, particularly in Europe, whilst share prices continued to head down. In the US, tax incentives and the historically low level of interest rates only managed to keep consumer spending up to par and to stimulate the housing market, though even consumers showed signs of fatigue during the closing months of 2002. In the euro zone, there was a general lack of dynamism, but the state of affairs in Germany proved particularly disappointing: economic growth there was barely positive, the government deficit threatened to exceed the euro norms, and unemployment mounted without any encouraging measures being taken to remedy the situation.

The consequence of this economic and financial climate, i.e. low activity growth and a limited demand for credit from companies, low interest rates, falling share prices and mounting credit risks, did not create a positive environment for either our banking or our insurance business.

Nonetheless, both the bank and the insurer managed to turn in more-than-creditable operating results. Admittedly, one-off factors played a part in the performance of the banking business: Kredyt Bank in Poland was fully consolidated for the first time for a full year; substantial gains were realized on a bond portfolio (built up partly in anticipation of a decline in interest rates); our subsidiary ČSOB recorded extra interest income, and its profit figure - when translated into euros - was enhanced by the strength of the Czech koruna.

Aside from these exceptional factors, the trend in interest income and revenues from currency dealing and securities trading was also positive. Income from securities trading was bolstered mainly by KBC Financial Products, where good results were achieved thanks to the development of credit derivative and hedge fund activities. Income from sales of investment funds and the securities business was down as a result of the hostile stock market climate. Still, KBC Asset Management also made a good showing, thanks to efficient management and a drop in assets under management of just 5%. All things considered, our banking business saw its gross operating income increase by 16%. Even if changes in the scope of consolidation are not taken into account, the increase would still have come to 8%.

Considering that economic conditions may limit income growth over the next few years, strict cost control is vital. The bank's performance in this regard is satisfactory, particularly at KBC Bank in Belgium. By the end of last year, the plan to reduce the workforce by 1 650 full-time equivalents during 2002-2004 had been 58% completed. This testifies to the progress being made in achieving the merger objectives through, among other things, the reduction in the number of retail bank branches. For KBC Bank and CBC Banque combined, the number of such branches had fallen from 1 657 on the merger in 1998 to 1 098 by the end of 2002. By limiting other costs too, KBC Bank NV managed to reduce its overall expenditure by 8%. At the consolidated level, however, costs rose by 7%, partly as a result of the above-mentioned expansion in the scope of consolidation; on an organic basis, the total cost level went down by nearly 1%.
All this generated a 37% year-on-year increase in the banking business' operating result, which went from 1.5 billion euros to 2 billion euros. On an organic basis and excluding capital gains on bonds and shares, the operating result was 27% higher.

The operating activities at KBC Insurance also made a good showing in both the life and the non-life businesses.
In the life assurance activities, there was a nearly threefold increase in premiums for class 21 insurance (life assurance offering a guaranteed minimum rate of return). This was mainly due to customers' aversion to equity investments and the efficient way in which the insurer and the bank branches responded to customer demand – yet another illustration of the



possibilities afforded by the bancassurance concept. The above-mentioned increase in premium income was accounted for primarily by business in the first six months of 2002. Indeed, sales of class 21 products were curtailed from July 2002 on, chiefly because interest rates on government bonds had fallen to such an extent by then that KBC Insurance could no longer ensure adequate cover for the guaranteed minimum return of 3.75%. Reflecting investors' lack of confidence in stock market investments, premium income from unit-linked life assurance fell by one-fifth. Total premiums received in the life business went up by around 33%.

In the non-life business, the performance with regard to volume and underwriting was no less satisfactory. Net premium income rose by 11%, though part of this increase (some four percentage points) stemmed from the consolidation of the Czech insurer IPB Pojišt'ovna, in which KBC has an 84% interest via ČSOB.
Even more important than the increase in premium income was the outstanding combined ratio (losses plus expenses, expressed as a per cent of premium income) for the direct non-life business in Belgium, which came to 100.2% in 2002. This fine, even exceptional, achievement can be attributed to the company's concentration on retail risks, its continued favourable claims experience and its sustained, prudent claims control carried out in collaboration with the network of KBC agents and bank branches.
KBC Insurance is one of only a few European non-life insurers with a combined ratio of roughly 100% in the direct non-life business.

The recurring investment income earned by KBC Insurance, not taking unit-linked life assurance into account, was on a par with the level recorded for 2001. The recurring return (including dividends) on equities came to 8.67%, while the return on bonds was down slightly compared with 2001.

The other components of the profit and loss account, namely value adjustments recognized on assets, experienced a much less favourable trend.
KBC Bank actually had one of its worst financial years where loan loss provisions are concerned, with amounts written down accounting for 0.55% of average loans outstanding in 2002, compared with 0.36% in 2001. Compared with that year, provisioning levels were sharply higher on the back of the full consolidation for the first time of the Polish subsidiary Kredyt Bank. Amounts written down on loans by that subsidiary came to 193 million euros, owing to the exceedingly adverse economic conditions that prevailed and extra provisioning for bad loans by the bank and its subsidiaries. This provisioning was needed to catch up to the level required under KBC loan valuation rules, which were applied following KBC's acquisition of a majority shareholding in Kredyt Bank at the end of 2001. The considerable funding provided by KBC to power plants in the UK and the US also contributed to the loan losses.
On our home market in Belgium, which accounts for nearly half of our lending, the provisioning percentage remained at what can, under the circumstances, be termed a reasonable level of 0.29%.

The bearish stock markets led to significant unrealized losses having to be recognized by the bank, but naturally affected our insurance business most, since one-fifth of its assets consist of equity investments. The application of KBC Insurance's valuation rules with regard to *lasting* value impairments led to an amount of nearly 300 million euros being written down. Over 157 million euros of this amount was offset by the provision for financial risks that had been set aside out of previously realized gains, while another 113 million euros was offset by non-recurring gains realized during the course of 2002.

On balance, and partly because of a significant increase in taxes at KBC Bank due to the non-deductibility of value impairments on shares, the solid operating results were seriously undermined by write-downs and provisions, so that net profit in the banking business only increased by 1.5% to 708 million euros, while profit in the insurance business decreased by a limited 3.3% to 348 million euros. For the entire KBC Group, all this led to a net profit of 1 034 million euros being recorded, or 1.2% more than in 2001.

Despite the fact that this growth was ultimately rather limited, we are still satisfied with our achievements in 2002: more particularly, the financial results themselves, the efficiency improvements in the banking business, the continued development of our bancassurance concept, the further strategic steps taken on the road to expansion in Central Europe and, lastly, the very sound solvency of both the banking and the insurance business.

Willy Breesch
Chairman of the Board of Directors,
KBC Bank and Insurance Holding Company

*'Thanks to our sound solvency, profitability, commercial drive and true customer-mindedness, we will succeed in achieving our strategic goals in order to meet the expectations of all our stakeholders.'*

The efficiency improvements achieved at the bank are best illustrated by the decrease in the cost/income ratio, which fell by 5.3 percentage points from 70.5% to 65.2% (if realized gains are not taken into account, the decline would still have come to 4.6 percentage points). This improvement can be put down not only to the more-than-creditable trend recorded for income, but also to the major cost-cutting efforts made by all the entities - particularly, as already pointed out above, KBC Bank Belgium.
The reduction in the workforce there came about wholly as a result of natural attrition, individual social plans and an almost complete freeze on new recruitment. Because of this freeze, employees whose job has been discontinued can fill the vacancies arising as a result of natural attrition. Thanks to this plan and the way it is being carried out, we are realizing a dual social objective: making changes to our company in a socially acceptable manner and fostering job security for our remaining employees.

Even so, these and other changes have placed quite a burden on our employees. In spite of this, they have managed to ensure the sound performance of our Group at the level of the operating result. Consequently, now more than ever, they are deserving of the express thanks and gratitude of the management and the shareholders. We would also like to express our appreciation to the social partners, with whom a constructive dialogue could be conducted on the above-mentioned workforce-reduction plan, as well as on the restructuring of the network into clusters of an average of six branches under the leadership of a 'hub branch'.

KBC remains convinced that its bancassurance concept is sound. It by no means shares the doubts about bancassurance expressed in some quarters due to the developments on the equity markets and the adverse effect on the results or solvency of a number of insurance companies, whether they belong to a bancassurance group or not. This experience will undoubtedly prompt major changes of policy by both life and non-life insurers and changes in the regulation of the sector. As a result, there will be even greater convergence between the policies pursued by banks and insurance companies, primarily as regards risk management and the assets side of their balance sheets. Aside from this, as a true bancassurance group, KBC will naturally also continue to reap the benefits of synergy in the areas of product development, the financing and protection of customers' assets, the joint distribution of products, and logistical integration.
In the field, work is geared towards developing insurance products for small and medium-sized enterprises, one of the main segments targeted by the bank, increasing the number of bancassurance customers (shared bank and insurance customers currently make up 38% of the total customer base), and expanding the bancassurance concept in Central Europe.

Central Europe has indeed remained a major focal point of KBC's overall strategy. During the course of 2002, additional investments of just under 700 million euros were made in this region for the purpose of, *inter alia*, acquiring a 34% stake in Nova Ljubljanska banka in Slovenia, a 40% shareholding in the insurer ERGO Poist'ovňa in Slovakia, and all the shares in IPB Pojišt'ovna, which was merged with ČSOB Pojišt'ovna on 1 January 2003. Over the past year, Central Europe generated nearly 30% of our interest and commission income and nearly 10% of all non-life insurance premiums. In 2002, Central Europe made a profit contribution of 96 million euros, or 9.3% of Group profit. This amount was adversely affected by Kredyt Bank's negative profit contribution of 91 million euros, which stemmed from the above-mentioned loan loss provisioning.

The programme of investment in Central Europe has now been largely completed, although new investments to raise existing interests and/or market share cannot be ruled out. Indeed, our solvency – both the bank's and the insurer's – gives us the scope to do this. At KBC Bank, the tier-1 ratio at year-end came to 8.8%, while KBC Insurance's solvency was three times the legally required minimum. Although KBC Insurance did experience a decline in its solvency, the relevant ratio is still well above the sector average and the level required for an AA rating.

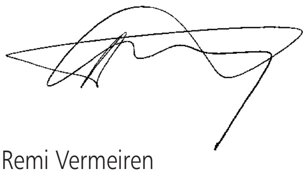
The Group's solvency was one of the factors which prompted the Board of Directors to propose an increase in the dividend to the General Meeting of Shareholders, an increase which will raise the payout ratio to 44.4%. It also serves as a solid foundation for the further expansion of our Group. Development in this regard will of course be significantly affected by the worldwide economic trend and the performance of the financial markets. This last will be particularly relevant for the results of KBC Insurance, which will remain highly susceptible in the years ahead to the trend in invest-



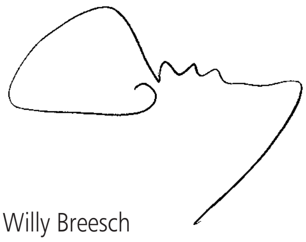
ment income and value adjustments on shares.

We are not optimistic regarding the overall economic outlook. Even if we discount the devastating influence current geopolitical uncertainty is having on the economic climate, we still expect economic growth to be limited in the next few years, particularly in Europe. Our expectations are based on demographic trends, the fact that means of production will only gradually be able to be re-orientated to serve the most productive sectors or to handle – the rather scarce – new initiatives, and on the specific problems facing the European Union's largest economy. Taking all these factors into account and after careful deliberation by the Board of Directors regarding the future development of our Group and its strategy, the targets for 2005 for return on equity and efficiency ratios, among other things, were lowered slightly. More information on this is given in the 'Strategy' section in this annual report. We believe that achieving these new targets (which are similar to those adhered to by successful financial institutions in Europe) will in principle make it possible to create considerable value for our shareholders.

The above-mentioned deliberations in the Board of Directors regarding strategy did not result in any noteworthy change of this strategy. As a member of the Almanij Group, KBC remains a medium-sized European institution, committed to its bancassurance concept for retail customers and small and medium-sized enterprises in specific countries of the European Union and in Central Europe, which we see as a growth pole. Our confidence in our strategy is not least a reflection of our confidence in our employees in Belgium, in Central Europe and farther afield.



Remi Vermeiren
President of the Executive Committee



Willy Breesch
Chairman of the Board of Directors

The Executive Committee
(from left to right):

Emile Celis,
Herman Agneessens,
Christian Defrancq, Jan Vanhevel,
Remi Vermeiren (President),
Frans Florquin, Luc Philips,
Willy Duron (Vice-President)

# EXECUTIVE COMMITTEE

**The Executive Committee of the KBC Bank and Insurance Holding Company NV consists of the members of the Executive Committees of KBC Bank NV and KBC Insurance NV. Each member of the Executive Committee is responsible for supervising the activities of a number of specific business units. Since the General Meeting of Shareholders of 25 April 2002, the Executive Committee of the KBC Bank and Insurance Holding Company NV has consisted of eight members. A description of the main supervisory responsibilities of each member of the Executive Committee is available on the KBC Web site: *www.kbc.com*.**

At the end of November, Mr. Remi Vermeiren expressed his intention to retire from KBC during the first half of 2003. The Boards of Directors of KBC Bank and the KBC Bank and Insurance Holding Company would like to express their gratitude for his efforts on the company's behalf, in particular his contribution towards the establishment and expansion of the KBC Bank & Insurance Group and the implementation of its international strategy, especially in Central Europe. The above-mentioned Boards of Directors have decided to appoint Mr. Willy Duron to replace Mr. Remi Vermeiren as President of the Executive Committee of the KBC Bank and Insurance Holding Company and to nominate Mr. André Bergen to the Boards of KBC Bank and the KBC Bank and Insurance Holding Company with a view to his appointment as President of the Executive Committee of KBC Bank and Vice-President of the Executive Committee of the KBC Bank and Insurance Holding Company.

In early February 2003, the Boards of Directors of KBC Bank and the KBC Bank and Insurance Holding Company decided to nominate Mr. Guido Segers to these Boards at the General Meeting of Shareholders of 23 and 24 April 2003, with a view to his appointment as a member of the Executive Committees of KBC Bank and the KBC Bank and Insurance Holding Company. Mr. Guido Segers will replace Mr. Luc Philips on these Executive Committees. Mr. Philips is being nominated by the Board of Directors of Almanij as managing director and member of the Executive Committee of that company.



# GROUP STRUCTURE

As a financial holding company, the KBC Bank and Insurance Holding Company co-ordinates the activities of KBC Bank, KBC Insurance and KBC Asset Management. The holding company is responsible for determining the strategy and deciding on the main investments of the Group, for allocating capital and for setting the profitability requirements.

Moreover, it is a driving force behind the integration of the bank and the insurance business. At the start of 2002, a number of support services were transferred to the holding company (including the marketing, communication, logistics and IT divisions) and a cost-sharing company was set up to allocate the cost of these services amongst the Group companies based on objective criteria.

The bank, insurance and asset management subsidiaries engage in the full range of activities specific to their fields. A detailed description of how responsibilities are divided up amongst the various entities is given in the 'Corporate governance' section.

## SIMPLIFIED GROUP STRUCTURE

**KBC Bank and Insurance Holding Company**

Departments

100% · 45% · 55% · 100%

| KBC Bank (100%) | KBC Asset Management (55%; 45% via KBC Bank) | KBC Insurance (100%) |
|---|---|---|
| Departments | Departments | Departments |
| Main subsidiaries and participating interests | Main subsidiaries and participating interests | Main subsidiaries and participating interests |
| **Belgium** | | **Belgium** |
| Antwerpse Diamantbank<br>CBC Banque<br>Centea<br>Fin-Force<br>International Factors<br>KBC Financial Products<br>KBC Investco<br>KBC Lease<br>KBC Securities | | ADD<br>Almarisk<br>Fidea<br>Secura |
| **Central Europe** | | **Central Europe** |
| ČSOB (Czech Republic and Slovakia)<br>K&H Bank (Hungary)<br>Kredyt Bank (Poland)<br>Patria Finance (Czech Republic)<br>Nova Ljubljanska banka (Slovenia) | | Agropolisa (Poland)<br>Argosz (Hungary)<br>ČSOB Pojišt'ovna (Czech Republic)<br>ERGO Poist'ovňa (Slovakia)<br>K&H Life (Hungary)<br>Warta (Poland) |
| **Rest of the world** | **Rest of the world** | **Rest of the world** |
| Assurisk (Luxemburg)<br>IIB Bank (Ireland)<br>KBC Clearing (Netherlands)<br>KBC Bank Deutschland (Germany)<br>KBC Finance Ireland (Ireland)<br>KBC IFIMA (Netherlands)<br>KBC Bank Nederland (Netherlands)<br>KBC Peel Hunt (UK)<br>KBC Financial Products (various countries)<br>KBC Securities (various countries)<br>KBC Lease (various countries) | KBC Asset Management Limited (Ireland) | FBD (Ireland)<br>Lucare (Luxemburg)<br>VITIS Life (Luxemburg) |

Kristel Grupping
Branch Manager
KBC Private Banking, Herentals Branch

*'KBC employees may be critical, but they stand by their company. There's a great team spirit. We want to move forward together.'*

# STRATEGY

**KBC has the ambition to be an independent, medium-sized, multi-channel bancassurer, serving private persons and small and medium-sized enterprises in selected European countries, with expertise in asset management and the financial markets and the aim of achieving high profitability targets through efficiency, customer-centricity, employee-friendly policies and sound risk management.**

## AREA OF OPERATION AND ACTIVITIES

KBC focuses on providing bancassurance services to private persons and small and medium-sized enterprises in European countries where there is potential to acquire the necessary market share and distribution capacity to enable it to do business profitably, thanks in part to the growing integration of banking and insurance activities. Besides bancassurance, KBC is also active in asset management – by definition an important aspect of bancassurance – as well as in various market activities and services for businesses.

One of the leading financial services groups in its first home market, Belgium, KBC is also present in various other West European countries through subsidiaries, branches and representative offices.
It has succeeded in developing a second home market in Central Europe, where it has become one of the premier financial services groups, with major and even leading positions in the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Through its network of representative offices, branches and subsidiaries, KBC is currently present in some thirty countries worldwide.

Its focus with regard to activities is reflected in their segmentation into the following five areas of activity: retail and private bancassurance, Central Europe, corporate services, asset management and market activities. For each of these business areas, profitability targets have been set (see below) and equity allocated.

## FINANCIAL TARGETS FOR 2005

The Group's financial targets for 2005 are shown in the table below.

The bank's targets for its tier-1 and CAD ratios were increased from 7% to 8-8.25% and from 11% to 12%, respectively. This adjustment was prompted by the generally uncertain economic climate, the Group's credit-rating objectives for its banking business and the fact that the upcoming introduction of the International Accounting Standards (IAS) may have a volatile effect on equity.

### GROUP FINANCIAL TARGETS FOR 2005

| | Targeted | | Achieved |
|---|---|---|---|
| | Old | New | 31-12-2002 |
| Return on equity, Group* | 20% | 16-18% | 12.7% |
| Return on equity for the five areas of activity combined (excluding the Group item) | 17% | 15-16% | 10.1% |
| Growth in earnings per share | 15% average per annum (2000-2004) | 10-12% average per annum (2001-2005) | 1.0% in 2002 |
| Cost/income ratio, bank | 55% | 58% | 65.2% |
| Combined ratio, insurer (non-life business) | 103% (total non-life business) | 95% (direct non-life business in Belgium) | 100.2% |
| Solvency, bank (tier-1 ratio/CAD ratio) | 7% / 11% | 8-8.25% / 12% | 8.8% / 13.7% |
| Solvency, insurer (account taken of unrealized gains and losses) | 200% | 200% | 320% |

* Account taken of the derogation authorized by the BFC regarding the immediate deduction from capital and reserves of goodwill paid on acquisitions in 1999, 2000 and 2001.



The insurer's solvency target has remained unchanged at 200%.

At the same time, the objectives regarding return on equity, growth in earnings per share and the bank's cost/income ratio were lowered and brought into line with the new long-term plan for the period up to 2005. This revision reflects diminished expectations regarding the income side, brought about by the less favourable economic environment (lower-than-expected economic growth in the euro zone, i.e. under 2-2.5%), the resulting decline in interest rates, the sluggish and/or weak financial markets and the write-downs that have to be taken on the loan portfolio, which may exceed the historical average.

On the other hand, the combined ratio targeted for non-life insurance was tightened to 95% (direct business in Belgium), based on the persistently good claims experience, cost control and a more positive climate for increases in premiums.

The strict solvency targets set for the bank and the insurer were already met or exceeded in 2002. For the direct non-life business in Belgium, the combined ratio fell to 100.2%. As to the cost/income ratio in the banking business, this is still some way from the targeted 58%, but it is moving in the right direction (a 5.3-percentage-point improvement on the 70.5% recorded for 2001).
The inauspicious economic climate and the poor situation prevailing on the stock markets over the past few years are the main culprits undermining the profitability indicators. KBC is relying on the following factors, among others, to drive profitability up over the next two to three years:

- The potential for expansion in Central Europe, a region expected to achieve above-average economic growth and which also holds out considerable promise as far as the further penetration of banking and insurance products is concerned.
- The continued development of retail bancassurance activities in Belgium through, *inter alia*, the gradual increase in the number of customers who buy both banking and insurance products from our Group.
- The positive effects of the merger on the cost/income ratio, primarily through the planned closures of bank branches, the migration of customers to the KBC computer platform and the planned cut-backs in KBC Bank's workforce in Belgium. The Central European subsidiaries are also taking measures to contain costs, including a headcount reduction.

In addition, there are specific targets for return on (allocated) equity for each area of activity. These are shown in the table below.

## 2005 TARGET FOR RETURN ON EQUITY PER AREA OF ACTIVITY

| | |
|---|---|
| Retail and private bancassurance | 16-19% |
| Central Europe | 17-19% |
| Corporate services | 12-15% |
| Asset management | - |
| Market activities | 18-20% |

## ACHIEVEMENT OF OPERATIONAL TARGETS

| | Targeted | Achieved, 31-12-2002 |
|---|---|---|
| KBC Bank retail branches | Reduction to around 800 in 2004 | 71% |
| KBC Bank workforce | Cut-back of 1 650 FTEs by 2004 | 58% |
| Migration of bank customers to the KBC computer platform | Completion by the end of 2003 | 93% |
| Migration of insurance customers to the KBC computer platform | Completed by the end of 2001 | Completed |
| Number of shared customers, KBC Bank – KBC Insurance | 40% of the total customer base | 38% |

Alex Verbraeken
Verbraeken, Vandewal, Ache en Co
KBC Insurance agent, Tervuren

*'KBC Insurance offers a wide range of high quality products. As an insurance agent, I get excellent support, even in IT.'*

# SHAREHOLDER INFORMATION

## SHAREHOLDERS

| 31-12-2002[1] | % | Number of shares |
|---|---|---|
| Almanij | 68.05% | 205 684 572 |
| KBC Bank & Insurance Group companies[2] | 2.17% | 6 562 135 |
| Subtotal | 70.22% | 212 246 707 |
| Free float | 29.78% | 89 992 493 |
| Total shares issued | 100.00% | 302 239 200 |
| Mandatory convertible bonds (MCBs), number of shares on conversion | | 10 943 768 |
| of which: held by Almanij and KBC Bank & Insurance Group companies | | 1 640 930 |

1 More information on the number of shares and the instruments that are convertible into shares is given in the section entitled 'Company annual accounts - KBC Bank and Insurance Holding Company NV'.
2 With the exception of shares held by KBC Securities and KBC Financial Products (trading purposes).

## ANNUAL RETURN

| Annual return (price gains and dividends) | KBC | BEL 20 | DJ EURO STOXX Banks (return index) |
|---|---|---|---|
| 1 year (2001-2002) | -15.5% | -24.2% | -25.2% |
| 3 years (1999-2002) | -13.6% | -11.6% | -13.1% |
| 5 years (1997-2002) | -1.0% | 0.3% | -0.7% |
| 7 years (1995-2002) | 9.7% | 7.3% | 10.5% |

## INDICES AND TICKER CODES

**Some indices that include the KBC share**

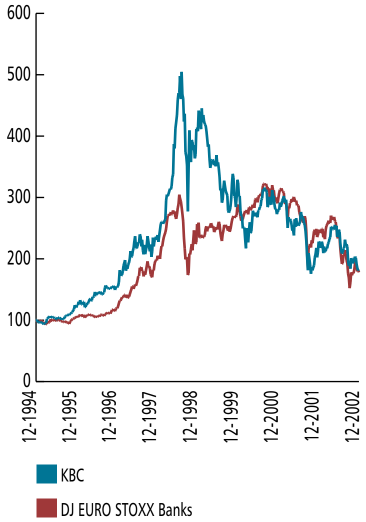
| | | | |
|---|---|---|---|
| BEL 20 | Dow Jones STOXX Mid 200 | FTSE Eurotop 300 Banks | MSCI World |
| Euronext 100 | Dow Jones EURO STOXX Mid | FTSE Eurotop 300 Eurobloc | MSCI Europe |
| VLAM-21 | Dow Jones EURO STOXX 600 | FTSE Eurotop 300 Economic Sector | MSCI Financials |
| Dow Jones EURO STOXX | Dow Jones EURO STOXX 600 Banks | FTSE Eurotop 300 Financials | MSCI Banks |
| Dow Jones EURO STOXX Banks | FTSE Eurotop 300 | FTSE4Good Europe | MSCI Belgium |

**Ticker codes, KBC share**

| | |
|---|---|
| Bloomberg | KBC BB |
| Datastream | B:KB |
| Reuters | KBKBt.BR |

### LONG-TERM PERFORMANCE OF THE KBC SHARE*

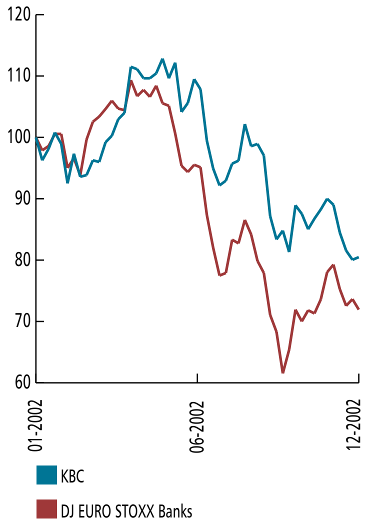
(31-12-1994 = 100 )




* Through 31-12-1997: former Kredietbank; the 10-for-1 share split was carried out retroactively.

### SHORT-TERM PERFORMANCE OF THE KBC SHARE

(31-12-2001 = 100)





## KEY FIGURES PER SHARE

| (In EUR, at year-end) | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Number of shares outstanding ('000) | 296 905 | 297 772 | 299 296 | 301 857 | 302 239 |
| Number of shares entitled to dividend ('000) | 296 385 | 297 277 | 298 922 | 301 465 | 302 090 |
| Earnings per share[1] | 2.69 | 3.26 | 3.90 | 3.39 | 3.42 |
| Gross dividend | 1.093 | 1.230 | 1.420 | 1.480 | 1.520 |
| Net dividend per ordinary share | 0.820 | 0.923 | 1.065 | 1.110 | 1.140 |
| Payout ratio (dividend payout/consolidated net profit) | 40.6% | 37.7% | 36.4% | 43.6% | 44.4% |
| Net asset value per share[2] | 32.3 | 33.8 | 35.2 | 33.8 | 31.6 |
| Highest price | 84.90 | 74.15 | 53.10 | 49.99 | 42.65 |
| Lowest price | 37.18 | 44.35 | 35.00 | 29.05 | 28.35 |
| Average price | 59.48 | 57.70 | 45.95 | 40.83 | 36.15 |
| Closing price, financial year | 67.43 | 53.50 | 46.13 | 37.70 | 30.39 |
| P/E ratio (based on closing price) | 25.0 | 16.4 | 11.8 | 11.1 | 8.9 |
| Equity market capitalization (in billions of EUR) | 20.02 | 15.93 | 13.78 | 11.38 | 9.19 |
| Average daily volume traded (number of shares) | 226 344 | 211 119 | 248 364 | 273 402 | 255 740 |
| Average daily volume traded (in millions of EUR) | 13.9 | 12.3 | 11.1 | 11.0 | 9.3 |

1 In 2001, the Fund for General Banking Risks (FGBR) was transferred to the reserves directly, without crossing the profit and loss account. The reference figures for the previous financial years are shown in this table as published in previous years.
2 Calculation: see 'Net asset value' table below.

## NET ASSET VALUE

| (In millions of EUR, at year-end) | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Capital and reserves | 5 223 | 4 216 | 5 776 | 7 852 | 8 429 |
| Fund for General Banking Risks | 1 604 | 1 825 | 1 841 | 0 | 0 |
| Unrealized gains on shares | | | | | |
| - banking | 1 157 | 920 | 494 | 319 | 113 |
| - insurance | 1 619 | 1 581 | 1 154 | 427 | -516 |
| Negative goodwill on consolidation | 0 | 1 520 | 1 256 | 1 617 | 1 520 |
| Net asset value | 9 602 | 10 062 | 10 521 | 10 215 | 9 545 |
| Net asset value per share (EUR) | 32.3 | 33.8 | 35.2 | 33.8 | 31.6 |

## RATINGS

| 31-01-2003 | | Fitch | | Moody's | | Standard & Poor's | |
|---|---|---|---|---|---|---|---|
| | | Rating | Outlook | Rating | Outlook | Rating | Outlook |
| KBC Bank | Long-term rating | AA- | Stable | Aa3 | Stable | A+ | Negative |
| | Short-term rating | F1+ | - | P1 | - | A-1 | - |
| KBC Insurance | Long-term rating* | AA | Stable | - | - | A+ | Negative |
| | Short-term rating | F1+ | - | - | - | - | - |
| KBC Holding Company | Long-term rating | A+ | Stable | - | - | A | Negative |
| | Short-term rating | F1 | - | - | - | A-1 | - |

* 'Claims-paying ability' rating.

## DIVIDEND POLICY

It is KBC Bank and Insurance Holding Company policy to pay out around 40-45% of the consolidated profit for the year in the form of dividends, save in exceptional circumstances. If there is a drop in profit for the year which is temporary in nature, then the payout percentage may be raised to keep the dividend relatively stable. An overview of the payout ratio for the past five years is given below.

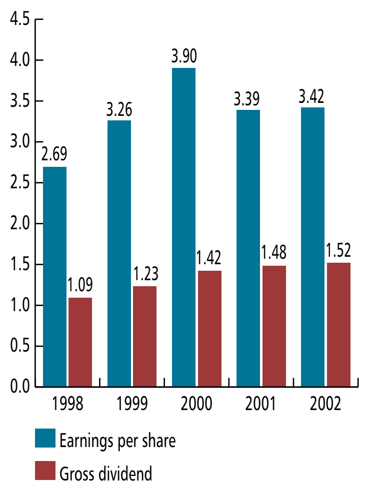
At the General Meeting of Shareholders on 24 April 2003, the Board of Directors will propose that a gross dividend of 1.52 euros be paid for the 2002 financial year. This corresponds to a net dividend per ordinary share of 1.14 euros and a net dividend per share with VVPR strip of 1.292 euros.

## SHARE BUY-BACK PLAN

The General Meeting of Shareholders on 25 April 2002 renewed the authorization to buy back treasury stock up to the statutory limit of 10% of capital. This authorization was exercised primarily to buy back shares needed for the new option scheme that was offered to employees in June 2002 (see section on 'Personnel').

### EARNINGS PER SHARE* AND GROSS DIVIDEND

(In EUR)




* For 2000, excluding the capital gain realized on the sale of the participation in CCF.

During the course of 2002, this and earlier buy-back authorizations led to 2 021 828 own shares being repurchased. At year-end, the KBC Bank and Insurance Holding Company held 5 397 474 of its own shares.

## INVESTOR RELATIONS

Information concerning the strategy and results of the KBC Group is available from Luc Cool, Investor Relations Manager, and Nele Kindt, Investor Relations Assistant.

| | |
|---|---|
| Address | KBC Bank and Insurance Holding Company<br>Strategy & Expansion Division - SEE<br>Havenlaan 2<br>BE-1080 Brussels |
| Tel. | + 32 2 429 49 16 |
| Fax | + 32 2 429 44 16 |
| Web site | *www.kbc.com* |
| E-mail | *investor.relations@kbc.be* |

The Investor Relations Department handles communication intended for shareholders and analysts. It is responsible for publishing the company's quarterly results in press releases and reports, for sending out press releases when other important events take place, for developing and managing the company's Web site, and for international road shows, etc. KBC also organized another special Investor Day in June, where KBC's top management explained a number of activities in detail (information on this event is available at *www.kbc.com*).

Erna Van Rensbergen
Administrative Officer
KBC Private Banking, Aarschot Branch

*'KBC has handled its merger better than the competitors. Even though it called for a lot of work on our part, our efforts were really appreciated.'*

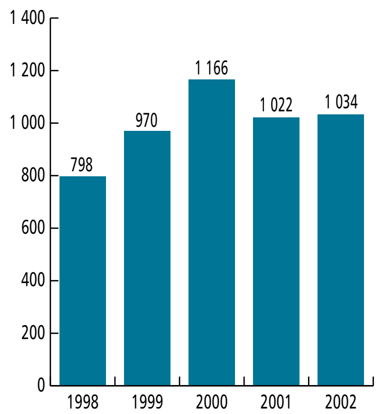
# GROUP RESULTS

## KEY FINANCIAL FIGURES, KBC GROUP

- All the core activities in both the banking and the insurance businesses turned in a good performance. The operating result was up sharply (+30%), thanks in part to the expansion in the scope of consolidation. In banking, there was a strong increase in interest earnings and gains on bonds, and in the life and non-life businesses, premium income rose. The technical result in the non-life activity was excellent (except for the reinsurance business) (combined ratio for direct non-life insurance in Belgium: 100%). Costs in the banking business were kept well under control: on an organic basis, they went down by 1%.
- Sizeable impairments were recorded in the value of the equity portfolios (501 million euros) and higher provisions were set aside for problem loans (465 million euros).
- Net profit (1 034 million euros) was up slightly compared with last year (+1%). Losses in the banking business in Poland and in the insurance business in the Czech Republic meant that, if there had been no expansion in the scope of consolidation, profit would have gone up by 6%.
- Solvency remained sound, with a tier-1 ratio in the banking business of 8.8%, and a solvency ratio in insurance (including the balance of unrealized gains and losses) of 320%.

### CONSOLIDATED PROFIT (GROUP SHARE)*

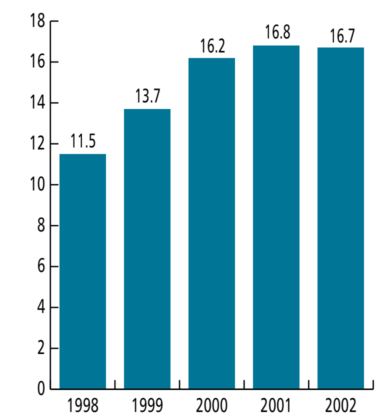
(In millions of EUR)




* For 2000, excluding the capital gain realized on the sale of the participation in CCF.

### TOTAL CAPITAL RESOURCES*

(In billions of EUR)




* Capital and reserves after profit appropriation, preference shares, minority interests, Fund for General Banking Risks and subordinated liabilities.

## KEY FIGURES, RESULTS

| (In millions of EUR)[1] | 2000 | 2001 | 2002 | Change |
|---|---|---|---|---|
| Consolidated profit, Group share[2] | 1 165.5 | 1 022.4 | 1 034.2 | 1.2% |
| - contribution, banking | 876.7 | 697.6 | 708.0 | 1.5% |
| - contribution, insurance | 320.6 | 359.9 | 348.1 | -3.3% |
| - contribution, holding-company activities | -31.8 | -35.1 | -21.9 | -37.8% |
| ROE[2, 3] | 17.3% | 13.2% | 12.7% | - |

## BALANCE SHEET AND SOLVENCY

| (In millions of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Total assets | 187 658 | 228 077 | 221 731 | -2.8% |
| Capital and reserves after profit appropriation[2, 3] | 5 776 | 7 852 | 8 429 | 7.3% |
| Total capital resources, Group[4] | 16 217 | 16 817 | 16 682 | -0.8% |
| Tier-1 ratio, KBC Bank | 9.5% | 8.8% | 8.8% | - |
| CAD ratio, KBC Bank | 16.0% | 14.7% | 13.7% | - |
| Solvency ratio, KBC Insurance (excluding unrealized gains and losses) | 307% | 318% | 306% | - |
| Solvency ratio, KBC Insurance (including unrealized gains and losses) | 683% | 504% | 320% | - |

1 For 2000, excluding the capital gain realized on the sale of the participation in CCF.
2 In 2001, the Fund for General Banking Risks (FGBR) was transferred to the reserves directly, without crossing the profit and loss account. The reference figures for capital and net profit for the previous financial years are shown in this table as published in previous years. To calculate return on equity (ROE), the FGBR has been added, retroactively, to capital and reserves and the annual transfer to/from the FGBR has been included in net profit.
3 Changes are related to *inter alia* the direct deduction of goodwill from capital and reserves for acquisitions between 1999 and 2001.
4 Capital and reserves after profit appropriation, preference shares, minority interests, Fund for General Banking Risks and subordinated liabilities.

## CONSOLIDATED BALANCE SHEET, KBC GROUP

| (In millions of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Banking** | 176 899.0 | 215 881.0 | 208 501.2 | -3.4% |
| Loans and advances to credit institutions | 21 860.3 | 28 291.3 | 29 298.6 | 3.6% |
| Loans and advances to customers | 78 936.2 | 87 046.9 | 98 775.1 | 13.5% |
| Securities | 58 174.8 | 66 224.7 | 61 895.3 | -6.5% |
| Financial fixed assets | 616.4 | 193.8 | 686.4 | 254.1% |
| Tangible and intangible fixed assets | 1 966.4 | 2 298.7 | 2 690.0 | 17.0% |
| Other assets | 15 344.9 | 31 825.6 | 15 155.9 | -52.4% |
| **Insurance** | 11 496.5 | 12 583.8 | 14 124.1 | 12.2% |
| Intangible fixed assets | 81.5 | 82.3 | 100.9 | 22.5% |
| Investments | 8 266.8 | 8 657.6 | 10 064.0 | 16.2% |
| Investments for the benefit of life assurance policyholders who bear the investment risk | 2 286.0 | 2 952.1 | 2 813.2 | -4.7% |
| Technical provisions, reinsurers' share | 178.1 | 173.9 | 250.1 | 43.8% |
| Debtors | 307.9 | 335.3 | 478.2 | 42.6% |
| Other assets | 376.3 | 382.6 | 417.8 | 9.2% |
| **Holding-company activities** | 475.1 | 626.6 | 802.7 | 28.1% |
| **Eliminations*** | -1 212.7 | -1 014.8 | -1 697.5 | 67.3% |
| **TOTAL ASSETS** | 187 658.0 | 228 076.6 | 221 730.5 | -2.8% |
| **LIABILITIES** | | | | |
| **Total capital resources, Group** | 16 216.9 | 16 817.4 | 16 681.9 | -0.8% |
| Capital and reserves | 5 775.5 | 7 852.3 | 8 428.9 | 7.3% |
| Minority interests (including preference shares) | 1 892.1 | 2 219.1 | 1 967.1 | -11.4% |
| Subordinated liabilities | 6 707.9 | 6 746.0 | 6 285.8 | -6.8% |
| Fund for General Banking Risks | 1 841.4 | 0.0 | 0.0 | - |
| **Banking** | 160 408.1 | 199 144.8 | 192 297.2 | -3.4% |
| Amounts owed to credit institutions | 41 961.7 | 41 199.6 | 39 683.3 | -3.7% |
| Customer deposits and debts represented by securities | 107 176.1 | 131 142.4 | 137 375.3 | 4.8% |
| Other liabilities | 11 270.3 | 26 802.8 | 15 238.6 | -43.1% |
| **Insurance** | 10 094.9 | 11 047.2 | 12 251.6 | 10.9% |
| Technical provisions | 7 101.8 | 7 367.0 | 8 860.6 | 20.3% |
| Technical provisions for life assurance policies where the investment risk is borne by the policyholders | 2 286.0 | 2 952.1 | 2 813.2 | -4.7% |
| Deposits received from reinsurers | 102.4 | 98.1 | 96.5 | -1.6% |
| Other liabilities | 604.8 | 630.0 | 481.3 | -23.6% |
| **Holding-company activities** | 1 835.1 | 1 731.0 | 1 842.9 | 6.5% |
| Financial liabilities | 1 331.5 | 1 208.7 | 1 316.9 | 9.0% |
| Other liabilities | 503.5 | 522.3 | 526.0 | 0.7% |
| **Eliminations*** | -897.0 | -663.7 | -1 343.0 | 102.3% |
| **TOTAL LIABILITIES** | 187 658.0 | 228 076.6 | 221 730.5 | -2.8% |

* The amounts eliminated on the assets side do not match eliminations on the liabilities side, due to direct elimination under the subordinated liabilities heading.

## CONSOLIDATED RESULTS, KBC GROUP

| (In millions of EUR) | 2000[1] | 2001 | 2002 | Change |
|---|---|---|---|---|
| Banking | 4 656.3 | 4 977.3 | 5 755.7 | 15.6% |
| Net interest income | 2 295.0 | 2 541.2 | 3 046.1 | 19.9% |
| Dividends | 142.3 | 120.8 | 157.8 | 30.6% |
| Results from participating interests accounted for using the equity method | 47.2 | 2.9 | 7.4 | 155.0% |
| Profit (Loss) on financial transactions | 835.9 | 884.8 | 1 013.6 | 14.6% |
| On currency dealing and securities trading | 590.1 | 609.6 | 615.1 | 0.9% |
| Realized gains and losses | 245.8 | 275.2 | 398.4 | 44.8% |
| Net commission and other operating income | 1 336.0 | 1 427.6 | 1 530.8 | 7.2% |
| Insurance | 747.9 | 809.3 | 852.3 | 5.3% |
| Earned premiums, net of reinsurance | 2 650.5 | 2 508.5 | 3 155.9 | 25.8% |
| Net technical charges | -2 334.8 | -1 960.9 | -2 274.0 | 16.0% |
| Value adjustments, unit-linked life assurance | 182.5 | 369.3 | 679.8 | 84.1% |
| Investment income and charges | 420.8 | 256.8 | -33.2 | - |
| Realized gains and losses | 161.2 | 183.5 | 198.0 | 7.9% |
| Value adjustments, unit-linked life assurance | -182.5 | -369.3 | -679.8 | 84.1% |
| Results from participating interests accounted for using the equity method | 11.5 | 5.0 | 3.5 | -28.8% |
| Holding-company activities | -33.0 | -29.2 | -15.3 | -47.6% |
| **GROSS OPERATING INCOME** | **5 371.2** | **5 757.3** | **6 592.7** | **14.5%** |
| Banking | -3 094.3 | -3 510.0 | -3 750.7 | 6.9% |
| Staff charges | -1 675.3 | -1 842.9 | -1 982.5 | 7.6% |
| Operating charges and depreciation on tangible fixed assets | -1 419.0 | -1 667.1 | -1 768.2 | 6.1% |
| Insurance | -374.3 | -407.0 | -456.5 | 12.2% |
| Acquisition costs | -302.4 | -323.5 | -361.6 | 11.8% |
| Operating charges | -71.9 | -83.4 | -95.0 | 13.8% |
| Holding-company activities | -3.6 | -3.8 | -4.5 | 18.0% |
| **GENERAL ADMINISTRATIVE EXPENSES** | **-3 472.2** | **-3 920.8** | **-4 211.7** | **7.4%** |
| **OPERATING RESULT** | **1 899.0** | **1 836.5** | **2 381.0** | **29.6%** |
| - banking | 1 562.0 | 1 467.2 | 2 005.0 | 36.7% |
| - insurance | 373.6 | 402.3 | 395.8 | -1.6% |
| Value adjustments, banking | -324.3 | -367.4 | -663.0 | 80.4% |
| Write-downs on and provisions for credit risks | -241.3 | -321.4 | -465.3 | 44.8% |
| Value adjustments on securities | -82.3 | -88.7 | -202.1 | 127.9% |
| Net allocation to the contingency funds | -15.8 | 0.0 | 0.0 | - |
| Provisions for other liabilities and charges | 15.1 | 42.6 | 4.4 | -89.6% |
| Amortization of goodwill on consolidation | -10.9 | -10.4 | -20.5 | 96.6% |
| Non-recurring result, insurance | 25.3 | 7.8 | 9.5 | 21.8% |
| Non-recurring realized gains and losses | 91.9 | 37.1 | 113.0 | 203.9% |
| Change in premium reserve | 23.3 | 0.0 | 0.0 | - |
| Equalization and catastrophe provision | -9.4 | 0.0 | 0.0 | - |
| Amounts recovered from third parties | 0.0 | 0.0 | 45.0 | - |
| Value adjustments | 0.0 | 0.0 | -298.7 | - |
| Provision for financial risks | -89.9 | -29.4 | 156.7 | - |
| Provision for Y2K- and dioxin-related claims | 29.6 | 0.0 | 0.0 | - |
| Senescence reserves | 0.0 | 0.0 | -6.5 | - |
| Extra non-life provision, Centea portfolio | -3.0 | 0.0 | 0.0 | - |
| Extra provision for variable remuneration | -4.2 | 0.0 | 0.0 | - |
| Depreciation charges, buildings | -5.1 | 0.0 | 0.0 | - |
| Change in valuation rule, doubtful loans | -7.9 | 0.0 | 0.0 | - |

## CONSOLIDATED RESULTS, KBC GROUP

| (In millions of EUR) | 2000[1] | 2001 | 2002 | Change |
|---|---|---|---|---|
| Extraordinary result, banking and insurance | 43.7 | 77.7 | 4.2 | -94.7% |
| Amortization, intangible fixed assets | 0.0 | 0.0 | -5.9 | - |
| Restructuring expenses | -4.3 | -3.9 | -2.5 | -34.4% |
| Gains realized on financial fixed assets | 68.4 | 99.8 | 30.0 | -70.0% |
| Other extraordinary results | -20.4 | -18.2 | -17.3 | -4.6% |
| **PROFIT (LOSS) BEFORE TAX** | **1 632.8** | **1 544.2** | **1 711.1** | **10.8%** |
| - banking | 1 277.4 | 1 170.5 | 1 336.5 | 14.2% |
| - insurance | 391.9 | 406.7 | 394.4 | -3.0% |
| Income taxes | -311.5 | -365.8 | -511.1 | 39.7% |
| - banking | -242.7 | -312.5 | -461.5 | 47.7% |
| - insurance | -73.6 | -51.2 | -47.5 | -7.1% |
| **CONSOLIDATED PROFIT** | **1 321.3** | **1 178.4** | **1 200.0** | **1.8%** |
| Minority interests | -155.8 | -156.1 | -165.8 | 6.2% |
| **CONSOLIDATED PROFIT, Group share** | **1 165.5** | **1 022.4** | **1 034.2** | **1.2%** |
| - banking | 876.7 | 697.6 | 708.0 | 1.5% |
| - insurance | 320.6 | 359.9 | 348.1 | -3.3% |
| - holding-company activities | -31.8 | -35.1 | -21.9 | -37.6% |
| Earnings per share (in EUR) | 3.90 | 3.39 | 3.42 | 1.0% |
| ROE[2] | 17.3% | 13.2% | 12.7% | - |

1 Excluding capital gain on CCF.
2 2000: restated figure, showing the FGBR being added to capital and reserves and the annual transfer to/from the FGBR being included in net profit.

An overview of the consolidated results per quarter is given in the section entitled 'Additional information'.

Return on equity, or the ratio between net Group profit and average equity, dropped from 13.2% in 2001 to 12.7% in 2002. Account has been taken of the derogation authorized by the Belgian Banking and Finance Commission (BFC) regarding the immediate deduction from equity of goodwill paid on acquisitions between 1999 and 2001. If the goodwill in question were capitalized and amortized over a period of twenty years[1], the return on equity for 2002 would come to 9.7%, compared with 10.2% in 2001.

## COMMENTS

The various components of the results have been affected by changes in the scope of consolidation during the course of 2002. The main changes are given in the tabel:

1 For 2002, the theoretical amortization comes to 93.5 million euros.

## MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2001-2002, RESULTS

| | 2001 | 2002 |
|---|---|---|
| Nova Ljubljanska banka | - | Equity method from the 4th quarter |
| IPB Pojišt'ovna | - | Fully consolidated |
| Kredyt Bank | Equity method, 1st through 3rd quarter; full consolidation from the 4th | Fully consolidated |
| K&H Bank (merger of K&H Bank and ABN AMRO Magyar Bank) | Includes ABN AMRO Magyar Bank from the 3rd quarter | Fully consolidated, including ABN AMRO Magyar Bank |

## ACTUAL AND ORGANIC GROWTH, 2001-2002

| | Actual growth | Organic growth |
|---|---|---|
| Gross operating income | 14.5% | 7.8% |
| - banking | 15.6% | 8.4% |
| - insurance | 5.3% | 2.2% |
| General administrative expenses | 7.4% | 0.0% |
| - banking | 6.9% | -0.6% |
| - insurance | 12.2% | 4.8% |
| Operating result | 29.6% | 24.6% |
| - banking | 36.7% | 30.0% |
| - insurance | -1.6% | -0.5% |
| Profit (Loss) before tax | 10.8% | 12.9% |
| - banking | 14.2% | 16.4% |
| - insurance | -3.0% | -1.7% |
| Consolidated profit, Group share | 1.2% | 5.8% |
| - banking | 1.5% | 5.5% |
| - insurance | -3.3% | 2.2% |

The last table on the previous page shows the actual growth and the organic growth (i.e. based on the scope of consolidation at year-end 2001, thus not taking changes in the scope of consolidation into account) of the main components of the results.

## [Results, banking]

At 708 million euros, the profit contribution made by the banking business was 1% higher (+6% on an organic basis) in 2002. Despite the dire climate that prevailed, the operating result went up sharply by 37% (+30% on an organic basis), owing to much higher interest income, gains realized on bonds and a good cost trend (-1% on an organic basis). On the other hand, there was a sharp increase in amounts written down on the equity and loan portfolios.

### Gross operating income

Gross income for 2002 was up considerably on 2001 (+16%), although growth was to some extent supported by (non-recurring) realized gains on bonds.
If these gains are not taken into account, income growth came to 14%. Even on an organic basis (i.e. excluding changes in the scope of consolidation; including gains however), growth was brisk (+8%).

For 2002, net interest income went up by 20% (+12% on an organic basis), with the biggest (organic) increase occurring in the dealing rooms. In Belgium, the commercial interest margin remained unchanged, widening for lending and narrowing for customer deposits. In Central Europe, good growth (+12% on an organic basis) in net interest income was recorded, although this figure was enhanced by exchange-rate effects and one-off interest revenues in the second quarter.

In 2002, the income component 'net commission income' did not do as well on account of the poor stock market climate (-4% on an organic basis). Income from the securities business and from corporate finance and acquisition transactions proved particularly disappointing, while commissions earned on fund management remained more or less up to par. On the other hand, income from payments grew, particularly in Central Europe.

For 2002, earnings on currency dealing and securities trading went up by 1% (-4% on an organic basis), although a drop was registered for money and capital market products (though this was without taking higher interest earnings included in the net interest income item into account). Derivatives trading made a very good showing; equity trading experienced a slight decline. On balance, there was a 45% increase in gains realized, compared with 2001. These gains were realized almost entirely on a bond portfolio that was held specifically to cope with the possibility of a decline in interest rates.

### NET INTEREST INCOME

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Interest receivable and similar income | 11 544.0 | 9 501.0 | -17.7% |
| Interest payable and similar charges | -9 002.8 | -6 454.9 | -28.3% |
| Net interest income | 2 541.2 | 3 046.1 | 19.9% |

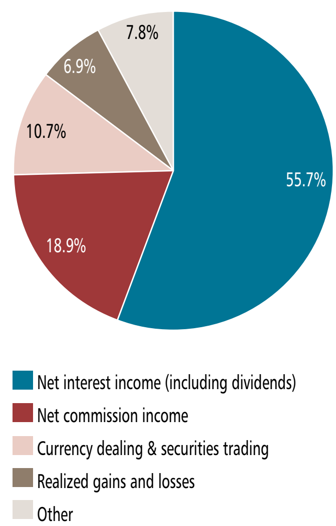
### NET COMMISSION INCOME

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Commission receivable | 1 465.6 | 1 527.0 | 4.2% |
| Securities and asset management | 765.8 | 776.9 | 1.4% |
| Commitment credit | 129.3 | 127.5 | -1.3% |
| Payments | 247.1 | 324.1 | 31.2% |
| Insurance | 54.4 | 57.6 | 6.0% |
| Other | 269.1 | 240.8 | -10.5% |
| Commission payable | -408.8 | -436.4 | 6.7% |
| Net commission income | 1 056.8 | 1 090.6 | 3.2% |

### PROFIT ON FINANCIAL TRANSACTIONS

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Currency dealing and securities trading | 609.6 | 615.1 | 0.9% |
| Realized gains and losses on investment securities | 275.2 | 398.4 | 44.8% |
| Fixed-income securities | 215.8 | 374.8 | 73.7% |
| Variable-yield securities | 57.0 | 13.6 | -76.1% |
| Securitization of receivables | 2.4 | 10.0 | - |
| Profit (Loss) on financial transactions | 884.8 | 1 013.6 | 14.6% |

### GROSS INCOME, BANKING



In 2002, 'other income' went up sharply (+19%), thanks largely to non-recurring amounts recovered on a securitization operation carried out during the first six months of the year.

### General administrative expenses

There was a noticeable improvement in costs in 2002. Although overall a 7% increase in costs was recorded year-on-year, this was due entirely to the expansion in the scope of consolidation. On an organic basis, costs fell by 1% (with staff charges up by 1%, depreciation/amortization up 9%, and other operating charges down by 6%). The cost/income ratio came to 65.2%, a striking improvement on the 70.5% recorded for 2001.

The cost trend was affected by the expense of modernizing IT systems and the network of bank branches in Central Europe (depreciation charges in that region increased on an organic basis in 2002 by some 40% compared to 2001; the figure has been inflated by the exchange-rate effect) and by the cost-savings realized in the various Group companies, especially in Belgium. At KBC Bank (non-consolidated), for instance, expenditure fell in 2002 by no less than 8%.

### Value adjustments

Loan loss provisions increased in 2002 by 45% to a record high, with the loan loss ratio coming to 0.55%. The situation in the various countries and regions where KBC is active is as follows:

- In Belgium, where lending is mainly to retail customers and medium-sized enterprises, the loan loss ratio comes to just 0.29% (0.32% in 2001).
- Save for the situation in Poland, loan quality in Central Europe is good. In Hungary, loan losses are relatively limited (loan loss ratio: 0.34%), while in the Czech Republic and Slovakia, amounts were again able to be written back from provisions (loan loss ratio excluding amounts released from provisions: 0.04%). In Poland, major loan loss provisions were charged, owing to the poor economic situation there and the stricter provisioning policy. The loan loss ratio in that country comes to 4.20%.
- As to the international (not including Central Europe) loan portfolio (corporate segment), this suffered on account of the worldwide economic slowdown. The loan loss ratio comes to 0.70%, accounted for primarily by the electricity and telecom sectors (mainly project and structured trade finance and concentrated in the US).

At year-end 2002, the non-performing ratio came to 2.8% (2.6% in 2001). Of the non-performing loans, 63% are covered by (specific) loan loss provisions, and another 8% by general credit provisions.

In 2002, value impairments on the investment portfolios in the banking business were recognized to the tune of 202 million euros.

## [Results, insurance]

For 2002, the profit contribution made by the insurance business came to 348 million euros, which is only down slightly on the year-earlier figure (-3%; +2% on an organic basis), despite the appalling stock-market climate (the result was negatively influenced by value impairments of 299 million euros on the equity portfolio). This result is attributable to the robust technical result, the use of an existing provision set aside long ago specifically for stock market risks, and the realization of (non-recurring) gains on shares. The recurring result (i.e. excluding non-recurring items, see below) was down 2% on 2001.

### Recurring result, Non-life

Premium income rose by 11% (+7% on an organic basis), with Belgium accounting for 4% of (organic) premium growth, the Central European insurers for 58% and reinsurance activities for 6%.
In Belgium, the strongest growth was recorded in fire insurance; in Central Europe, Hungary (Argosz) recorded the highest premium growth. The network of KBC agents accounted for 69% of premium income from non-life products, independent brokers generated 23% and the network of bank branches was good for 8%.

The loss ratio for the Group rose to 71.8% (+2.4 percentage points). Despite the storm damage in October, the loss ratio for direct business in Belgium came to 65.3% (without the storm damage,

### OTHER INCOME

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Other income | 370.8 | 440.3 | 18.7% |

### GENERAL ADMINISTRATIVE EXPENSES

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Staff charges | -1 842.9 | -1 982.5 | 7.6% |
| Depreciation, fixed assets | -357.5 | -419.5 | 17.3% |
| Other administrative expenses | -1 309.6 | -1 348.7 | 3.0% |
| General administrative expenses | -3 510.0 | -3 750.7 | 6.9% |
| KBC Bank NV | -1 595.8 | -1 475.2 | -7.6% |

### VALUE ADJUSTMENTS

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Write-downs on and provisions for credit risks | -321.4 | -465.3 | 44.8% |
| Write-downs on securities | -88.7 | -202.1 | 127.9% |
| Variable-yield securities | -89.3 | -168.5 | 88.7% |
| Fixed-income securities | 0.6 | -33.7 | - |

it would have been 62.6%), which is just 1.4 percentage points higher than in 2001. After claims following the August floods, the non-life insurance business in Central Europe and the reinsurance activities ended up with loss ratios of 78.7% (a sharp rise of 15 percentage points) and 89.2% (a 1-percentage-point increase), respectively. The expense ratio for the full year 2002 amounted to 33.3%, down 1.1 percentage points on the year-earlier figure. Due to the inclement weather conditions in the second half of 2002, the combined ratio for the Group climbed to 105.1% for the year, compared with 103.8% in 2001. The ratio for the direct non-life business in Belgium amounted to 100.2%, which is in line with the very good figure for 2001 (100.0%).

### Recurring result, Life

Premium income increased strongly by 33% (+27% on an organic basis), with 43% of premium income accounted for by unit-linked life assurance and 57% by other products. Compared to 2001, there was a more than threefold increase in premium volume generated by sales of products offering a guaranteed interest rate, particularly during the first six months of the year. However, sales were deliberately curtailed from the third quarter on, because of the low level of interest rates. Sales of unit-linked products were down 21% on the year-earlier figure, which was accounted for by customers' aversion to risk. The network of bank branches generated 81% of the premium income in the life business, the network of KBC agents 12% and independent brokers 7%.

Operating charges went up by 25% (9% in organic terms) in 2002. The (organic) increase in charges is largely attributable to higher acquisition costs resulting from the robust growth of premium income in Belgium. In Central Europe, too, rapid expansion led to higher costs.

### Recurring non-technical result

The non-technical result was 61% lower than the 2001 figure, due to the generally lower level of investment income. The contribution made by Group companies accounted for via the equity method remained more or less unchanged.

### Non-recurring result

The non-recurring result includes income and charges from ordinary activities which do not occur regularly or in the ordinary course of business.

For the year as a whole, non-recurring income offset non-recurring charges (including the value impairments recognized on the equity portfolio), the balance coming to 9 million euros.
The annual result was influenced by the following factors:

- In preparation for the application of the IAS/IFRS reporting standards, a package of KBC shares in the investment portfolio was sold during the fourth quarter. This will prevent these shares from having to be deducted from equity under the new system and adversely affecting the solvency ratio as a result. Partly as a result of this operation, the historical normalized return on the equity portfolio has been exceeded, and these gains are therefore treated as non-recurring.
- In 2002, lasting (unrealized) value impairments came to 299 million euros.
- The negative value adjustments made to the equity portfolio were largely offset during the first nine months of 2002 by amounts drawn from the existing provision for financial risks (157 million euros), which had been set aside to cushion such fluctuations in value. This provision was utilized in full at the end of September 2002.
- The non-recurring result also included a one-off catch-up entry (45 million euros) in the third quarter for 'amounts recoverable from third parties'. Up to and including the second quarter of 2002, a loss recovered from third parties was only recognized when the amount in question was received. In preparation for the switch to the IAS/IFRS reporting method, these amounts have been booked as receivables from the third quarter of 2002 on and also

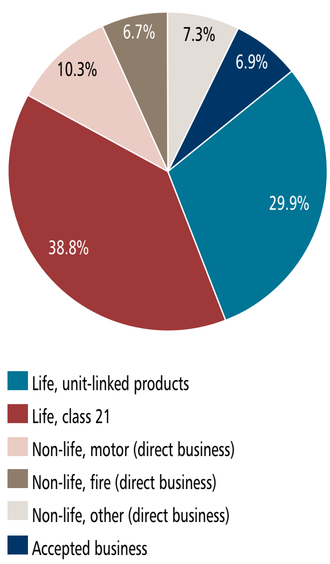
## RECURRING RESULT

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Technical result, Life | 173.5 | 194.8 | 12.3% |
| Technical result, Non-life | 139.6 | 164.0 | 17.5% |
| Non-technical result | 87.5 | 34.3 | -60.8% |
| Recurring result | 400.6 | 393.1 | -1.9% |

## NON-RECURRING RESULT

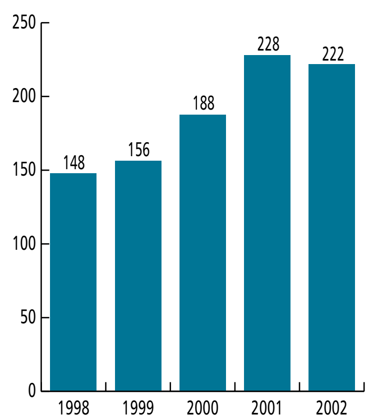
| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Non-recurring realized gains and losses | 37.1 | 113.0 | 203.9% |
| Provision for financial risks | -29.4 | 156.7 | - |
| Value adjustments, shares | 0.0 | -298.7 | - |
| Amounts recoverable from third parties | 0.0 | 45.0 | - |
| Other | 0.0 | -6.5 | - |
| Non-recurring result | 7.8 | 9.5 | 21.8% |

## GROSS EARNED PREMIUMS, INSURANCE



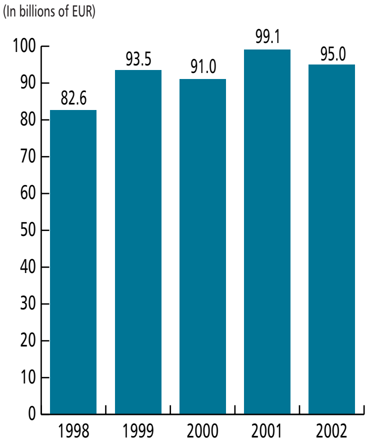
TOTAL ASSETS

(In billions of EUR)




RISK-WEIGHTED VOLUME, KBC BANK

(In billions of EUR)




included immediately in the results, which is in keeping with general practice in the sector.

- An evaluation of the reserve requirements led to an additional 6 million euros being allocated to the 'senescence reserve' (under the 'other' item in the 'non-recurring result' heading), which has been set up to deal with the increased life expectancy of the population.

## [Extraordinary result and taxes]

On balance, the extraordinary result in 2002 amounted to just 4 million euros, noticeably less than the year-earlier figure (a decline of 74 million euros).

Taxes for the year were appreciably higher (+40% on the 2001 figure) as a result of the high level of taxable capital gains on bonds in the banking business and the increase in non-deductible write-downs and provisions, in general.

## [Results, holding-company activities]

The result achieved by the holding company amounted to -22 million euros in 2002, compared with a loss of 35 million euros a year earlier. This improved performance was due in part to the reduction in external funding and the lower funding rate.

## [Balance sheet and solvency]

On 31 December 2002, the Group's capital and reserves came to 8.4 billion euros, a 7% increase on the previous year. Total capital resources declined slightly (-1%) to 16.7 billion euros, owing to a drop in subordinated liabilities and a reduction in minority interests.

For the banking business, the tier-1 ratio came to 8.8%, on a par with the high level recorded at year-end 2001. The total solvency ratio (CAD) amounts to 13.7%. The insurance business also remains sound, despite the continuing stock market malaise, with a solvency ratio (including the positive balance of gains and losses on the investment portfolio) of 320%.

Loans and advances to customers went up in 2002 by 14% to 99 billion euros. A striking feature of this growth is the increase in the volume of home loans. In Belgium, this portfolio went up by 7%, in Ireland by 45% and in Central Europe by 100%. As to corporate loans, the volume outstanding (especially to international borrowers) fell, but there was a sharp increase in the volume of reverse repos. On balance, this led to a decline in risk-weighted assets of 4% to 95 billion euros.

Customer deposits were up 5% to 137 billion euros, an increase marked (particularly in Belgium) by a shift from time deposits to traditional savings deposits that are withdrawable on demand.

The Group's investment portfolios came to around 54 billion euros and they can be divided up as follows:

- Banking: 43.5 billion euros, with unrealized gains of 1.7 billion euros (1.6 billion euros of this amount on fixed-income securities);
- Insurance: 10.0 billion euros, with unrealized gains of 82 million euros (497 million euros on fixed-income securities, -516 million euros on variable-yield securities and 101 million euros on other investments).

## [Profit outlook for 2003]

The general economic outlook for 2003 is uncertain. Consequently, it is not feasible to make any exact forecasts regarding income growth or how value adjustments will develop. On the costs front, KBC is confident that it will achieve its cost-cutting objectives.



## BREAKDOWN BY AREA OF ACTIVITY

### Five areas of activity

The activities of the KBC Group can be broken down into five areas:

- Retail and private bancassurance
- Central Europe
- Corporate services
- Asset management
- Market activities

The 'Group item' includes capital gains in the banking business, value adjustments recorded on securities, income and charges that cannot be directly allocated to the specific areas of activity, goodwill that is deducted from capital and reserves (for acquisitions between 1999 and 2001), and debt-service charges on leveraging (funding of subsidiaries' equity capital with borrowings) by the holding company. Consequently, the positive impact of the deduction of goodwill and of leveraging on return on equity is only reflected in return on equity for the whole Group, not in the return on equity for the different areas of activity.

### Allocation of equity

The allocation of equity to the different areas of activity is based on regulatory requirements. However, since the bank sets higher objectives than legally required for tier 1, more tier-1 capital (commensurate with a tier-1 ratio of 7%) is allocated to the areas of activity, too. This tier-1 capital consists of pure equity and 15% preference shares. In calculating return on equity (ROE), only pure equity is taken into account (in the denominator).

In the insurance business, one and a half times the legally required minimum amount is allocated to VITIS Life, twice the legally required minimum amount to the retail businesses and three times the legally required minimum amount to corporate services and the activities in Central Europe.

### Minority interests

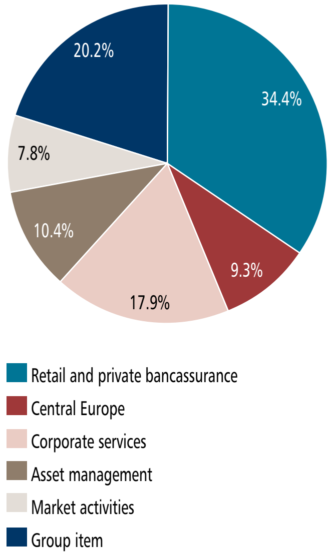
Since 100% of the risk-weighted assets are consolidated in the banking business, the equity allocated also reflects 100% of these assets. Consequently, minority interests are included in net profit (and ROE) for the areas of activity. Minority interests are deducted from net profit for the 'Group item'.

### Amortization of capitalized goodwill

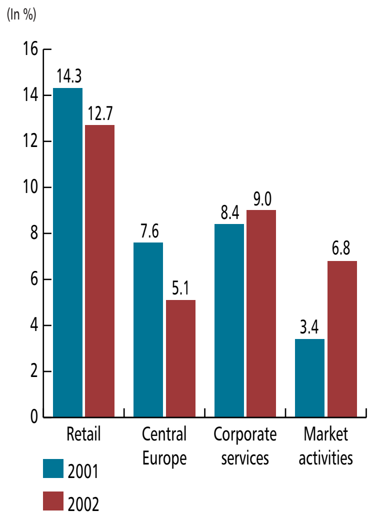
Net profit (and ROE) for the areas of activity is shown before the amortization of capitalized goodwill. The amortization of capitalized goodwill is included under the 'Group item'.

The overview table on the next page shows the key figures per area of activity, and is followed by a description, detailed financial figures and a brief report on each area of activity.

## NET PROFIT BY AREA OF ACTIVITY




## RETURN ON ALLOCATED EQUITY PER AREA OF ACTIVITY*

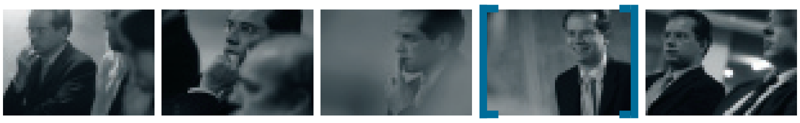



* Given the lack of risk-weighted assets, no return on equity is shown for asset management activities.

## OVERVIEW OF AREAS OF ACTIVITY

| (In millions of EUR)* | Retail and private banc-assurance | Central Europe | Corporate services | Asset manage-ment | Market activities | Group item | Total |
|---|---|---|---|---|---|---|---|
| **1 Banking** | | | | | | | |
| Profit contribution, 2001 | 70.1 | 134.5 | 213.1 | 90.8 | 38.5 | 150.7 | 697.6 |
| Profit contribution, 2002 | 34.8 | 122.8 | 211.4 | 107.5 | 80.7 | 150.8 | 708.0 |
| Allocated equity, 31-12-2001 | 1 996.7 | 1 629.2 | 2 267.9 | - | 1 118.5 | -5.0 | 7 007.3 |
| Allocated equity, 31-12-2002 | 1 952.7 | 2 016.7 | 1 985.9 | - | 1 146.8 | 175.4 | 7 277.5 |
| **Key ratios, 31-12-2002** | | | | | | | |
| - Share in result | 3.2% | 10.3% | 19.1% | 10.4% | 7.8% | 17.7% | 68.5% |
| - Share in risk-weighted assets | 34.1% | 16.8% | 34.0% | - | 10.9% | 4.1% | 100.0% |
| - Share in allocated equity | 23.2% | 23.9% | 23.6% | - | 13.6% | 2.1% | 86.3% |
| - ROE | 1.8% | 6.3% | 10.1% | - | 6.8% | - | 10.0% |
| **2 Insurance** | | | | | | | |
| Profit contribution, 2001 | 312.6 | 6.8 | -3.9 | 0.0 | 0.0 | 44.4 | 359.9 |
| Profit contribution, 2002 | 323.2 | -11.6 | -12.9 | 0.0 | 0.0 | 49.4 | 348.1 |
| Allocated equity, 31-12-2001 | 816.9 | 262.4 | 121.5 | - | 0.0 | 200.0 | 1 400.8 |
| Allocated equity, 31-12-2002 | 908.0 | 216.9 | 122.2 | - | 0.0 | 343.8 | 1 590.9 |
| **Key ratios, 31-12-2002** | | | | | | | |
| - Share in result | 31.2% | -1.0% | -1.2% | 0.0% | 0.0% | 4.7% | 33.7% |
| - Share in allocated equity | 10.8% | 2.6% | 1.4% | - | 0.0% | 6.3% | 21.1% |
| - ROE | 37.4% | -4.4% | -10.0% | - | - | - | 22.7% |
| **3 Holding-company activities** | | | | | | | |
| Profit contribution, 2001 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -35.1 | -35.1 |
| Profit contribution, 2002 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -21.9 | -21.9 |
| Allocated equity, 31-12-2001 | 0.0 | 0.0 | 0.0 | - | 0.0 | -555.8 | -555.8 |
| Allocated equity, 31-12-2002 | 0.0 | 0.0 | 0.0 | - | 0.0 | -439.5 | -439.5 |
| **4 KBC Group** | | | | | | | |
| Profit contribution, 2001 | 382.7 | 141.3 | 209.1 | 90.8 | 38.5 | 160.0 | 1 022.4 |
| Profit contribution, 2002 | 358.0 | 111.1 | 198.5 | 107.5 | 80.7 | 178.3 | 1 034.2 |
| Allocated equity, 31-12-2001 | 2 813.5 | 1 891.6 | 2 389.4 | - | 1 118.5 | -360.8 | 7 852.3 |
| Allocated equity, 31-12-2002 | 2 860.7 | 2 233.6 | 2 108.1 | - | 1 146.8 | 79.7 | 8 428.9 |
| **Key ratios, 31-12-2002** | | | | | | | |
| - Share in result | 34.4% | 9.3% | 17.9% | 10.4% | 7.8% | 20.2% | 100.0% |
| - Share in allocated equity | 33.9% | 26.5% | 25.0% | - | 13.6% | 0.9% | 100.0% |
| - ROE | 12.7% | 5.1% | 9.0% | - | 6.8% | - | 12.7% |

* 'Profit contribution' for the areas of activity includes minority interests. 'Share in result' excludes minority interests.



Nik Vincke
Marketing Manager, Corporates – Retail Marketing
KBC Bank

*'We survived the merger unscathed. We now have a whole range of commercial channels which function well and reinforce each other.'*

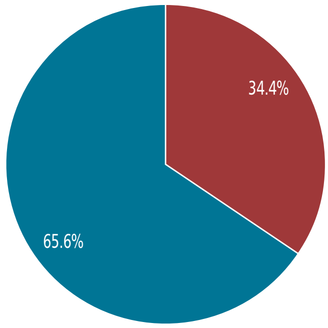
# RETAIL AND PRIVATE BANCASSURANCE

'Retail and private bancassurance' encompasses the activities of the bank branches, agents and brokers, as well as those conducted via electronic channels that cater for private persons, the self-employed and local businesses (retail bancassurance) and for high-net-worth individuals (private bancassurance).

## CONTRIBUTION TO THE RESULT

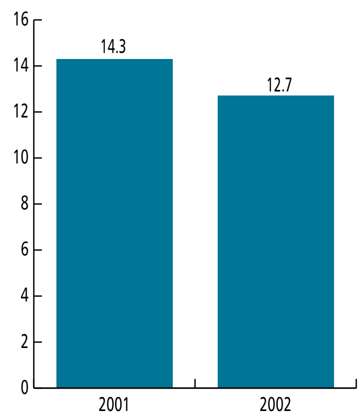
| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| **Banking** | | | |
| Gross income | 1 794.1 | 1 716.0 | -4.4% |
| General administrative expenses | -1 645.1 | -1 595.1 | -3.0% |
| Write-downs and provisions | -41.4 | -66.5 | 60.7% |
| Income taxes | -37.6 | -19.5 | -48.2% |
| Other | 0.0 | 0.0 | - |
| Profit contribution | 70.1 | 34.8 | -50.3% |
| Profit contribution, Group share | 70.0 | 33.4 | -52.4% |
| *Risk-weighted assets* | *33 127.1* | *32 364.0* | *-2.3%* |
| *Allocated equity* | *1 996.7* | *1 952.7* | *-2.2%* |
| Share in Group profit | 6.9% | 3.2% | - |
| Cost/income ratio | 91.7% | 93.0% | - |
| ROE | 3.7% | 1.8% | - |
| **Insurance** | | | |
| Earned premiums, net of reinsurance | 2 263.8 | 2 737.1 | 20.9% |
| Net technical charges | -1 753.5 | -1 914.3 | 9.2% |
| Investment income and charges | 214.1 | -80.2 | - |
| General administrative expenses | -330.8 | -345.1 | 4.3% |
| Non-recurring and extraordinary results | 5.9 | 9.6 | 62.7% |
| Income taxes | -50.2 | -42.4 | -15.6% |
| Other | -36.7 | -41.5 | 13.2% |
| Profit contribution | 312.6 | 323.2 | 3.4% |
| Profit contribution, Group share | 311.4 | 322.5 | 3.6% |
| *Allocated equity* | *816.9* | *908.0* | *11.2%* |
| Share in Group profit | 30.5% | 31.2% | - |
| Combined ratio | 100.0% | 100.2% | - |
| ROE | 41.6% | 37.4% | - |
| **KBC Group** | | | |
| Profit contribution | 382.7 | 358.0 | -6.5% |
| Profit contribution, Group share | 381.5 | 355.9 | -6.7% |
| *Allocated equity* | *2 813.5* | *2 860.7* | *1.7%* |
| Share in Group profit | 37.3% | 34.4% | - |
| ROE | 14.3% | 12.7% | - |

## SHARE IN GROUP PROFIT (2002)




## RETURN ON ALLOCATED EQUITY

(In %)



## CONTRIBUTION TO THE RESULT

In 2002, this area of activity contributed 358 million euros to consolidated profit (including minority interests), down 6.5% on the year-earlier figure. This performance was thus good for 34.4% of Group profit (compared with 37.3% in 2001) and a return on allocated equity of 12.7% (14.3% in 2001). Allocated equity edged up to 2.9 billion euros, which represents 33.9% of Group equity.

In banking, gross income fell by 4.4%, due primarily to lower commission income from the securities and asset management businesses. General administrative expenses also went down by 3%, owing to cost-savings (realized via downsizing, branch mergers and lower ICT development costs, and facility management costs, etc.). On balance, amounts written down were 25 million euros higher, due to the increase in provisions for new individual loans and the fact that the 2001 figures had been favourably influenced by the writing back of general provisions. After the deduction of taxes – which fell in tandem with the result – the retail and private banking business contributed 33 million euros to consolidated profit (Group share) in 2002, down roughly 50% on the year-earlier figure.

In the insurance business, premium income grew by more than 20%, expanding by 4% in the non-life business and by almost 27% in the life business, where products with a guaranteed rate of interest (class 21 products) accounted for more than 56% of premium income. General administrative expenses (including commissions) increased by 4.3%. Adversely affected by the storm damage of October 2002, the (non-life) loss ratio came to 65.3%. However, if the claims incurred as a result of this storm are excluded, the loss ratio would be just 62.6% (a 1.3-percentage-point improvement on the 2001 figure). The combined ratio (i.e. the loss ratio plus the expense ratio) came to 100.2%. Investment income was affected by both lasting, unrealized value impairments on the investment portfolio and by positive non-recurring income, such as the release of the provision for financial risks and the gains realized on the sale of KBC Bank and Insurance Holding Company shares.

Ultimately, the retail and private insurance business contributed 323 million euros to consolidated profit (Group share), up approximately 4% on the figure for 2001.

## HIGHLIGHTS

### [Progress on the merger front]

The merger of the bank branches that began in 1999 proceeded according to plan in 2002, with the number of KBC Bank retail branches being reduced by 152 to 998. By 2004, there should be approximately 800 left, almost 50% less than the pre-merger level. Branch rationalization at CBC Banque was completed at the end of 2001, so the number of its retail branches remained more or less unchanged in 2002.

At Centea, too, the restructuring designed to create larger and better-performing agencies resulted in their number being reduced from 1 055 to 885. The number of KBC Insurance agencies was also scaled down from 684 to 640, due almost entirely to a number of agents taking the initiative to establish joint agencies.

The table below shows the total number of bank branches (including corporate and private banking branches) and bank and insurance agencies at the end of 2002. Via this network, KBC serves roughly 3.3 million bank and 1 million insurance customers[1] in Belgium.

The structure of the bank and insurance network was also radically changed by, *inter alia*, the retail bank branches and insurance agencies being divided up into three areas instead of the previous five provinces. Each area is jointly run by two general managers, one of whom specializes in insurance and the other in banking. In addition, the number of regions was reduced from 34 to 26 and the bank branches grouped into clusters. A cluster is the product of a far-reaching co-operation agreement between an average of six bank branches, viz. one larger central branch (the hub branch) surrounded by a number of smaller branches and outlets. With a view to improving the quality of customer service, arrangements are made within each cluster regarding opening hours, product know-how, training and staffing levels, etc. This, together with the ongoing efficiency survey in the larger retail branches and the continued implementation of the new customer-service concept, should lead to even greater efficiency in the retail network

1 KBC Insurance NV, excluding subsidiaries.

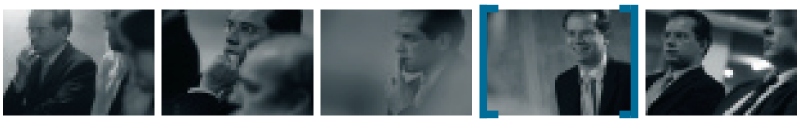
### REDUCTION IN NUMBER OF RETAIL BANK BRANCHES

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| KBC Bank | 1 490 | 1 430 | 1 272 | 1 150 | 998 |
| CBC Banque | 167 | 138 | 116 | 102 | 100 |
| Total | 1 657 | 1 568 | 1 388 | 1 252 | 1 098 |

### BRANCHES AND AGENCIES (31-12-2002)

| | Retail | Private banking | Corporate | Total |
|---|---|---|---|---|
| **Bank branches** | | | | |
| KBC Bank | 998 | 21 | 17 | 1 036 |
| CBC Banque | 100 | 6 | 13* | 119 |
| Total | 1 098 | 27 | 30 | 1 155 |
| **Agencies** | | | | |
| Centea | | | | 885 |
| KBC Insurance | | | | 640 |

* Main branches catering for both retail and corporate customers.



and an even higher standard of customer service.

The migration of customers to KBC's new IT platform is proceeding right on schedule: at the end of 2002, 93% of the customer base had already been transferred. In the Autumn of 2002, a start was also made on migrating private banking clients. All customers should have been migrated to the new platform by the end of 2003 and the old systems decommissioned by February 2004, at the latest.

The conversion and integration programme at KBC Insurance was completed at the end of 2001.

## [Cross-selling potential]

The success of KBC's bancassurance concept can be measured by various factors, including the number of customers the bank and insurer share, as well as by sales of insurance products via the bank distribution channels.

At the end of 2002, roughly 38% of the customer base[2] of KBC Bank and KBC Insurance in Belgium had bought both banking and insurance products from KBC, which is very close to the target of 40%.

Furthermore, no less than 81% of premium volume in the (direct) life business was generated through the bank distribution network in 2002 (68% for universal and traditional class 21 products and 98% for unit-linked products). The remaining 19% was generated by the insurance agents (12%) and brokers (7%). The increase in the share of the bank network in the distribution of class 21 products (profit-sharing life assurance with a guaranteed rate of interest) is related to successful sales of these products during the first six months of 2002.

In the (direct) non-life business, too, the bank distribution network is a significant sales channel, accounting for 8% of the premium volume generated in 2002, with the agents (69%) and brokers (23%) naturally continuing to account for the bulk of sales.

## [Electronic distribution channels and e-bancassurance]

Besides its network of branches and agencies, there are also a variety of alternative channels (including the telephone and the Internet) through which KBC offers its products and services to customers. The success of these non-traditional channels is illustrated by the fact that KBC was receiving nearly 80% of payments instructions via electronic channels at the end of 2002.

In 2002, the offering of PC and Internet banking services was also significantly extended in scope (new applications) and in depth (by refining and developing existing applications). This affected a number of packages, including KBC-Online, KBC's main online banking application for private individuals. Since mid-2002, KBC-Online customers have been able to print out their statements of account in A4 format, generate a complete overview of their assets and obligations at KBC, buy and sell investment funds online and view a summary of the insurance products they have purchased from KBC. Partly as a result of these developments, the number of cus-

2 For this calculation, all accounts registered under the same address count as one customer. The figure concerns only KBC Bank and KBC Insurance (not their subsidiaries).

### CROSS-SELLING INDICATORS

| | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Shared customers, KBC Bank – KBC Insurance (number of addresses) | 533 000 | 555 000 | 574 000 | 3.4%[1] |
| Shared stable[2] customers, KBC Bank – KBC Insurance (number of addresses) | 157 000 | 169 000 | 182 000 | 7.7% |
| Class 21 life assurance sold via the bank channel[3] | 45.0% | 46.4% | 67.8% | 21.4% pts. |
| Unit-linked life assurance sold via the bank channel[3] | 96.9% | 97.1% | 97.9% | 0.8% pts. |
| Non-life insurance sold via the bank channel[3] | 7.3% | 8.8% | 8.2% | -0.6% pts. |

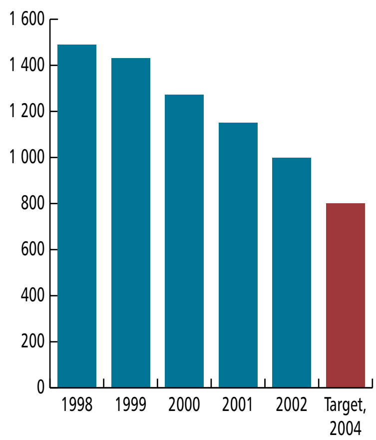
1 An increase of as much as 6% if a number of technical factors are disregarded.
2 Stable: at least three banking and three insurance products.
3 As a per cent of premium income, direct business.

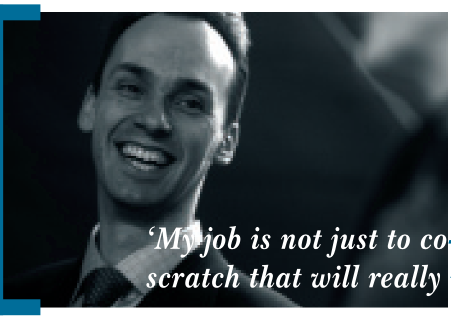
### E-BANKING INDICATORS

| | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Share of payments transactions via electronic channels | 69.3% | 75.2% | 78.8% | +3.6% pts. |
| Number of KBC-Matic ATMs | 1 065 | 1 238 | 1 206 | -2.6%* |
| Number of cash withdrawals at KBC-Matic ATMs per month | 1.9 million | 2.3 million | 2.5 million | +8.7% |
| Active subscribers to KBC's Internet and PC banking facilities | 85 000 | 170 000 | 250 000 | +47.1% |
| Active subscribers to KBC's phone banking facilities | 67 000 | 79 000 | 69 000 | -12.7%* |
| Number of visits to the KBC Web site (December) | 420 000 | 1 426 000 | 3 040 000 | +113.2% |

* The decrease in the number of ATMs is related to the downsizing of the branch network; the decline in the number of active subscribers to phone banking has to do with customers switching to online banking.

### REDUCTION IN NUMBER OF KBC BANK RETAIL BRANCHES





WOJCIECH WASZAK
Director of Strategic Customers Department
Kredyt Bank, Poland

*'My job is not just to co-ordinate, I can actually set up a department from scratch that will really improve the bank's lending activities.'*

tomers actively carrying out their banking business online rocketed (by almost 50%) last year. Meanwhile, more than 35% of all the stock-exchange orders placed with KBC Bank come in via KBC-Online.

The offering of Internet services to private individuals was also improved during 2002 with the release of enhanced versions of the KBC Tax Planner and 'My KBC' (an Internet-based tool which visitors can use to receive free personalized information via e-mail, SMS and WAP), and the launch of a 'housing portal', which offers a wide range of information and a number of simulation modules for making calculations for home loans, borrowing capacity, home appraisals, budgeting, etc.

The KBC Web site was awarded the highest possible score of five stars by the magazine *Clickx* and took second place in *T-zine*'s (the electronic magazine of the *Financieel Economische Tijd*) 'site of the year' award.

In insurance, too, the provision of services via electronic channels is gaining ground, as illustrated by the success and further development of the AssurCard. A joint initiative of KBC Insurance, the AssurCard is an electronic insurance card that can be used for all kinds of transactions with service-providers. At the end of 2002, more than 50 000 KBC customers had an AssurCard, and this figure is expected to double by the middle of 2003.

## [Share of the domestic retail market]

Generally speaking, KBC succeeded in maintaining its share of the domestic retail market, despite the closure of a large number of branches (see table).

The bearish stock markets prompted customers to 'park' a good deal of their money in fixed-income savings products, especially deposit books. The customary savings campaign conducted in October (offering a higher growth premium for a certain period of time) was one of the reasons why KBC was able to increase its share of the market for this type of product from 19.8% to 21.1%. KBC, as market leader, had a 30.1% share of the investment fund market in Belgium at year-end, compared to 29.3% at the end of 2001 (see the section entitled 'Asset management').

The share of the retail insurance market edged up from 10.9% to 11.2%, which was accounted for primarily by sales of traditional and universal life assurance products (including KBC Life Capital, which proved very popular particularly during the first half of 2002). As regards unit-linked life assurance and the non-life business, market share remained largely unchanged at 20.5% and 8.4%, respectively.

## [New products and services for the retail segment]

In addition to the innovations referred to in the area of e-bancassurance (the increase in the functionality of KBC-Online, the launch of a housing portal on the Web site, etc.), countless other new products and services were launched during the past year.

### RETAIL MARKET SHARE IN BELGIUM[1]

| | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| **Retail banking** | | | |
| Consumer credit | 25.8% | 26.3% | 23.3% |
| Home loans | 25.1% | 25.6% | 25.4% |
| Deposit books | 19.4% | 19.8% | 21.1% |
| Savings certificates[2] | 17.9% | 17.5% | 15.8% |
| Investment funds[3] | 29.2% | 29.3% | 30.1% |
| **Retail insurance** | | | |
| General | 11.7% | 10.9% | 11.2% |
| Non-life insurance | 8.7% | 8.5% | 8.4% |
| Life assurance | 13.3% | 12.3% | 12.8% |
| Traditional & Universal | 6.2% | 5.8% | 9.8% |
| Unit-linked | 19.7% | 20.8% | 20.5% |

1 Market share, banking: the figure for 2002 is an estimate based on the data for November. Consumer credit and home loans have been granted primarily, but not exclusively, to private individuals. The share of the insurance market in 2002 is based on estimates.
2 Including subordinated retail certificates.
3 See the 'Asset management' section.



For instance, in response to a variety of developments (including the entry into force of the EU regulation on charges for cross-border payments within the euro zone and the discontinuation of the eurocheque guarantee), KBC renewed its product offering in the field of payments. It introduced a new range of accounts, which are more transparent and can be adjusted to meet the individual needs of the customer. In April 2002, KBC also launched KBC PINTO AURORA and KBC PINTO VISA, two payment cards with a 'budget reserve', to meet the requirements of consumers wanting to choose how quickly they repay the amounts owed on their card. Lastly, the introduction of the euro in 2002 also led to the real breakthrough of Proton, the electronic purse, with the number of reloading transactions and payments almost doubling.

As in previous years, KBC continued to launch new and innovative investment funds and unit-linked insurance products as part of its wealth management activities (see the section entitled 'Asset management'). In collaboration with KBC Asset Management and KBC Bank, KBC Insurance introduced a number of new unit-linked life assurance products, the so-called KBC Life Security products, which offer 100% capital protection at maturity and a possible extra return. KBC also came out with two new, unit-linked life assurance products for high-net-worth clients: KBC Life Privileged Portfolio, for clients with at least 250 000 euros to invest, and KBC Life Alternative Investments, a hedge-fund-linked product which aims to generate a return that has little or no correlation with stock market trends.

In 2002, KBC also launched a life assurance product which the customer can choose to have linked to consumer credit (it will cover any outstanding debt in the event of death), while the AssurCard (see 'Electronic distribution channels and e-bancassurance') was incorporated into the standard offering of all new individual hospitalization insurance policies. The gloomy stock market climate and increased investor aversion to risk also prompted consumers *en masse* to buy profit-sharing life assurance products with a guaranteed rate of interest in 2002. KBC Insurance responded to this trend by rolling out various funds, including KBC Life Capital.

In the non-life business, the highlights included the launch of natural disaster insurance in February 2002 (covering flooding and other natural disasters), the introduction of all-risks insurance for home contents in the home insurance policy and the launch of a specific environmental policy. In the event of soil contamination, this policy provides cover for the clean-up operation required by the Flemish Soil Decontamination Decree and constitutes an important part of KBC's Environmental Service, which has been designed for small and medium-sized enterprises and includes EIF-backed environmental loans, bank soil decontamination bonds and advice on government aid and risk management services. A variety of campaigns were conducted in insurance to highlight concerns for public safety, including a burn-prevention campaign for the protection of small children. The accident insurance policy launched around the same time also enjoyed considerable success. This policy covers the families of breadwinners against non-occupational accidents which result in permanent disablement and, given the robust sales figures, has clearly met a real need among customers.

## [Private banking]

Private banking clients are catered for via KBC Bank's twenty-one specialized private banking branches and CBC Banque's six private banking branches, which provide advisory and discretionary management services. In the provision of the latter services, the specialized branch handles the relationship with the customer, while KBC Asset Management manages the portfolio. In 2002, the number of customer relationships handled by the private banking network increased by more than 8%, compared to the year-earlier figure.

The extensive range of wealth-management and wealth-protection services (including asset structuring and legal or fiscal advice) was enhanced in 2002 through the addition of exclusive funds (similar in structure to retail funds, but with higher denominations and specific features to meet the needs of private banking clients) and tailored products (such as equity-linked certificates and a number of specific real estate certificates), which used to be offered mainly to institutional investors. Information on private banking services was provided to clients via a brand-new periodical called *Academy News*.

## KEY FIGURES FOR THE MAIN SUBSIDIARIES

Besides KBC Bank NV and KBC Insurance NV, a number of their subsidiary companies are active exclusively or mainly in the provision of retail and bancassurance services:

- CBC Banque: a universal bank in French-speaking Belgium, with a network of 119 branches in Wallonia and Brussels, including 100 retail branches, six private banking branches and thirteen main branches that cater for both retail and corporate customers.
- Centea: a Belgian savings bank that caters exclusively for private persons, the self-employed and members of the liberal professions, offering a comprehensive package of banking and insurance products via its network of independent agents and in close co-operation with its sister company, Fidea. In March 2003, Krefima, a subsidiary of Centea, was sold to a Dutch concern.
- KBC Lease: via various companies, the KBC Lease Group is active in Belgium and abroad in financial leasing, real estate leasing, renting, full-service automobile leasing and European vendor finance. The network of KBC Group bank branches is the main distribution channel in Belgium, and the Group occupies second place in both the financial leasing and full-service automobile leasing markets. At European level, in addition to direct leasing activities, the company focuses mainly on collaboration with international vendors.
- Fidea: a domestic insurance subsidiary operating on the market through independent brokers. Fidea is active in both the life assurance and non-life insurance business.
- VITIS Life: a Luxemburg-based insurance company which caters primarily for high-net-worth clientele and is increasingly concentrating on the provision of unit-linked life assurance.

### KEY FIGURES FOR THE MAIN SUBSIDIARIES

| | KBC shareholding | | | Net profit (in millions of EUR)[1] | | | ROE[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| CBC Banque | 100.0% | 100.0% | 100.0% | 35.3 | 45.8 | 50.8 | 10.0% | 12.3% | 12.9% |
| Centea[2] | 99.6% | 99.6% | 99.6% | 44.9 | 75.9 | 16.2 | 9.1% | 14.6% | 3.0% |
| Fidea (including Delphi) | 100.0% | 100.0% | 100.0% | 40.8 | 43.7 | 55.5 | 15.3% | 14.3% | 16.1% |
| KBC Lease | 100.0% | 100.0% | 100.0% | 4.4 | 1.9 | 12.0 | 6.1% | 2.6% | 14.9% |
| VITIS Life[2] | 94.3% | 94.3% | 94.3% | 3.9 | 5.0 | 0.1 | 10.5% | 12.0% | 0.2% |

1 The change to the Fund for General Banking Risks (FGBR) has been included in net profit; in calculating return on equity, the FGBR has also been added to capital and reserves in the denominator.
2 Figures are on a non-consolidated basis.

GEERT DE KEGEL
Executive Director, Retail/SME Distribution
ČSOB, Czech Republic

*'KBC is a Belgian company that respects the specific local character of its entities abroad. As a result, ČSOB also feels very much a part of the Group. KBC doesn't mind if you're critical. It's on the look-out for people with vision and determination. The technical aspects will be ironed out later.'*

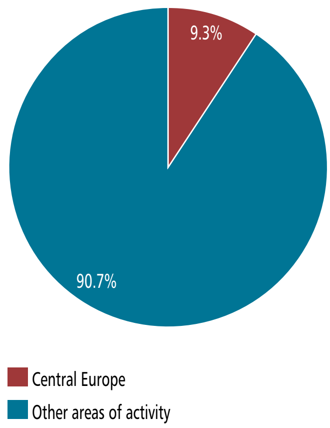
# CENTRAL EUROPE

**KBC's businesses on its second home market are grouped under the separate area of activity referred to as 'Central Europe'. This encompasses all retail bancassurance services, corporate services, asset management and market activities in the Czech Republic, Slovakia, Hungary, Poland and Slovenia.**

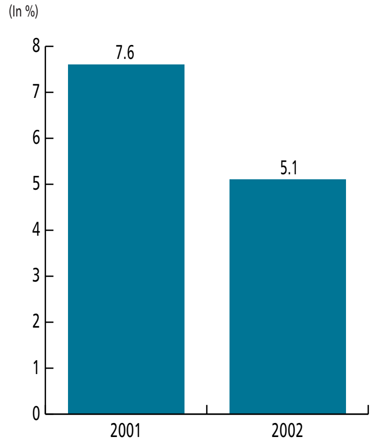
## CONTRIBUTION TO THE RESULT

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| **Banking** | | | |
| Gross income | 982.2 | 1 376.2 | 40.1% |
| General administrative expenses | -743.3 | -1 018.4 | 37.0% |
| Write-downs and provisions | -45.6 | -155.3 | - |
| Income taxes | -58.9 | -79.7 | 35.4% |
| Other | 0.0 | 0.0 | - |
| Profit contribution | 134.5 | 122.8 | -8.7% |
| Profit contribution, Group share | 112.3 | 106.5 | -5.1% |
| *Risk-weighted assets* | *15 405.8* | *15 999.4* | *3.9%* |
| *Allocated equity* | *1 629.2* | *2 016.7* | *23.8%* |
| Share in Group profit | 11.0% | 10.3% | - |
| Cost/income ratio | 75.7% | 74.0% | - |
| ROE | 8.4% | 6.3% | - |
| **Insurance** | | | |
| Earned premiums, net of reinsurance | 38.1 | 207.5 | - |
| Net technical charges | -27.3 | -185.9 | - |
| Investment income and charges | 11.1 | 21.6 | 94.7% |
| General administrative expenses | -13.5 | -49.1 | - |
| Non-recurring and extraordinary results | 0.0 | 0.4 | - |
| Income taxes | 0.0 | -4.3 | - |
| Other | -1.6 | -1.9 | 18.7% |
| Profit contribution | 6.8 | -11.6 | - |
| Profit contribution, Group share | 6.5 | -10.5 | - |
| *Allocated equity* | *262.4* | *216.9* | *-17.3%* |
| Share in Group profit | 0.6% | -1.0% | - |
| Combined ratio | 98.5% | 110.0% | - |
| ROE | 2.6% | -4.4% | - |
| **KBC Group** | | | |
| Profit contribution | 141.3 | 111.1 | -21.3% |
| Profit contribution, Group share | 118.8 | 96.0 | -19.1% |
| *Allocated equity* | *1 891.6* | *2 233.6* | *18.1%* |
| Share in Group profit | 11.6% | 9.3% | - |
| ROE | 7.6% | 5.1% | - |

## SHARE IN GROUP PROFIT (2002)




## RETURN ON ALLOCATED EQUITY



## CONTRIBUTION TO THE RESULT

In 2002, this area of activity contributed 111.1 million euros to consolidated profit (15.1 million of which minority interests), down 21.3% on the year-earlier figure. This performance was thus good for 9.3% of Group profit (compared with 11.6% in 2001) and a return on allocated equity of 5.1% (7.6% in 2001). Allocated equity rose by 18.1% to 2.2 billion euros, which represents 26.5% of Group equity. The first table below provides an overview of the contribution to profit made by the main subsidiaries in Central Europe.

Comparison of the results for 2001 and 2002 is affected by a number of changes to the scope of consolidation: in 2002, Kredyt Bank was fully consolidated (whereas it had been fully consolidated for just one quarter in 2001 and accounted for using the equity method for the other three); the merged K&H Bank was included for a full year (in 2001, the 'old' K&H Bank had been included for six months and the merged entity for the other six); NLB was accounted for using the equity method from the fourth quarter of 2002 and IPB Pojišt'ovna was fully consolidated for the first time.

The net profit contribution made by ČSOB (Czech Republic and Slovakia) went up by almost 15% in 2002, due to a number of factors, including an increase in net interest earnings, the writing back of substantial provisions for a number of major loans and a positive exchange-rate effect. K&H Bank (Hungary) contributed 38 million euros to net profit in 2002, compared to a slightly negative contribution in 2001 that had been due to merger-related restructuring expenses, among other things. This improvement was attributable in part to the non-recurrence of these restructuring expenses, an increase in income, limited provisioning and a positive exchange-rate effect. In Poland, Kredyt Bank's bottom line was pushed deep into the red by extensive provisioning, following on the improved recognition of bad loans and the poor state of the Polish economy, which led to a negative contribution of 91 million euros being made to Group profit (compared with -13 million euros in 2001).

The insurance business in Central Europe continued to make a negative contribution to Group profit. Naturally, the first-time (full) consolidation of IPB Pojišt'ovna in the Czech Republic had a significant impact on the components of the results. In organic terms, premium income grew by 65% (thanks to Argosz in Hungary, as well as other companies). The combined ratio for the Central-European non-life insurance business amounted to 110% in 2002, due to *inter alia* the flood damage in the region and the high cost/income ratio at IPB Pojišt'ovna.

## HIGHLIGHTS

### [KBC's presence on its second home market]

Through its subsidiaries and participating interests, the KBC Group has become one of the leading financial groups in Central Europe, catering for approximately six million bank customers via a network of around 1 000 bank branches. It has captured a considerable share of the insurance market in this region via various distribution channels (agents, brokers and bank branches). According to an independent study, KBC was the biggest international bank group in Central and Eastern Europe in mid-2002 in terms of total assets (with an estimated market share of roughly 11.3%).

As this region's economic growth is expected to exceed the European Union's in the next few years and these countries should gradually catch up with the European Union as far as the penetration of banking and insurance products is concerned, the growth prospects for financial services in Central Europe look very promising. Furthermore, any systemic or country risk these countries might represent will to a large extent be mitigated by their expected entry into the European Union in 2004.

The acquisition of a stake in Nova Ljubljanska banka (NLB) in Slovenia in 2002 means that KBC is now present in a large part of the area targeted in Central Europe. Going forward, KBC will therefore be focusing on the further integration and co-ordination of its existing Central European investments, especially on the development of bancassurance activities, which is one of its main objectives. If necessary, it may also, in co-opera-

### PROFIT CONTRIBUTION, CENTRAL EUROPE*

| (In millions of EUR) | 2001 | 2002 |
|---|---|---|
| ČSOB | 159.0 | 182.2 |
| K&H Bank | -1.6 | 38.2 |
| Kredyt Bank | -12.6 | -91.1 |
| Nova Ljubljanska banka (4th quarter of 2002) | - | 0.4 |
| Insurance companies | -3.3 | -18.6 |
| Total | 141.3 | 111.1 |

* Using the methodology as described in 'Group result', under 'Breakdown by area of activity' (consequently, the figures differ from the stand-alone results of these companies at the end of this section).

### KBC'S PRESENCE IN CENTRAL EUROPE

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Total investment | 2.66 billion EUR | 0.27 billion EUR |
| Number of customers[1] | 6 million | - |
| Workforce (FTEs)[2] | 19 733 | 1 496 |
| Branches | 1 021 | - |

1 Estimate.
2 These figures relate exclusively to subsidiaries in which KBC has a majority participation and exclude the distribution network of the insurance companies.



tion with NLB, make relatively minor acquisitions in the other republics of the former Yugoslavia. In those countries where KBC is already present, but where its share of the market is deemed insufficient, efforts will be made to step up or consolidate existing investments. For the banking business, the focus will lie on Poland and Slovakia (via ČSOB in this last country, see below), while for insurance, priority will be given to Slovakia (see ERGO Poist'ovňa), Hungary and the start of a greenfield life assurance business in Slovenia (see below).

## [Czech Republic]

In the Czech Republic, KBC owns 84.1% of the Czech bank ČSOB, which also has a significant presence in Slovakia (see below). In 2002, after the merger with IPB was virtually completed, ČSOB concentrated on further improving the quality of its services and the relationship with its customers, and continued to develop various bancassurance products. This last objective was made much easier by ČSOB acquiring a 100% stake in the Czech insurer, IPB Pojišt'ovna, after agreement was reached in February 2002 on the dispute concerning ownership of this company. Since then, a start has been made on gradually integrating the insurance activities of ČSOB Pojišt'ovna with those of IPB Pojišt'ovna. In order to highlight the connection with ČSOB Bank, the newly merged entity has been renamed ČSOB Pojišt'ovna. As already mentioned, collaboration between the ČSOB Group's banks and insurance companies led to the launch of a variety of bancassurance products in 2002, including ČSOB Life Insurance and credit card insurance.

In addition, the ČSOB Group's asset management activities were brought together in the newly established ČSOB Asset Management Group, which concentrates on fund management and offering discretionary asset management services to private and institutional investors, and is already the biggest asset manager in the Czech market.

It should also be mentioned that the disastrous Summer floods in the Czech Republic had consequences for the network of ČSOB Bank branches in that country. Nevertheless, the pro-active approach taken by a crisis management team helped restrict the damage to a relatively minor amount, most of which was covered by insurance (the actual loss was estimated to be less than 1 million euros). The net impact on the Group's insurance companies was relatively limited, as well (approximately 3 million euros).

Besides ČSOB and the Group's insurance companies, KBC also owns Patria Finance, a leading investment bank in the Czech Republic. An agreement was concluded with ČSOB to allow Patria to specialize in the equities business, while ČSOB focuses on the bond business.

## [Slovakia]

In 2002, ČSOB succeeded in expanding its position on the retail market in Slovakia. At year-end, it was catering for approximately 170 000 customers via a network of 51 branches, an increase of roughly 30% on the year-earlier figure. ČSOB now occupies fourth place on the Slovakian banking market.

KBC has also been active on the Slovakian insurance market since 2002 through its acquisition of a 40% direct interest in ERGO Poist'ovňa (Ergo), on top of its indirect participation via IPB Pojišt'ovna. With an estimated market share of 4.4% in the life and 1.5% in the non-life businesses, Ergo sells its products through a network of independent tied agents, independent brokers and its own staff. Here, too, in collaboration with ČSOB, a bancassurance concept has been worked out to allow ČSOB's Slovakian bank branches to sell Ergo insurance products. Universal life products were launched at the start of 2003 and the range of products will be gradually extended to include insurance linked to bank products, as well as non-life insurance.

### KBC'S PRESENCE IN THE CZECH REPUBLIC*

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Participating interests | ČSOB (84.1%)<br>Patria Finance (100.0%) | ČSOB Pojišt'ovna (84.1%) |
| Ranking | 1st | 5th in non-life, 4th in life |
| Market share | 18.1% | 4.8% in non-life, 10.1% in life |
| Number of customers | 3.1 million | - |
| Workforce (FTEs) | 7 722 | 972 |
| Branches | 205 (+ 3 400 points of sale located in post offices) | - |

* Figures for ranking, market share and customers are estimates. The bank's ranking is based on total assets. The market share in banking is the average share of the market for loans and customer deposits. The figures on the workforce do not include the distribution network of the insurance companies and the subsidiaries of ČSOB.

### KBC'S PRESENCE IN SLOVAKIA*

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Participating interests | ČSOB (84.1%) | ERGO Poist'ovňa (69.4%) |
| Ranking | 4th | 7th in non-life, 7th in life |
| Market share | 5.4% | 1.5% in non-life, 4.4% in life |
| Number of customers | 0.2 million | - |
| Workforce (FTEs) | 1 136 | 319 |
| Branches | 51 | - |

* Figures for ranking, market share and customers are estimates. The bank's ranking is based on total assets. The market share in banking is the average share of the market for loans and customer deposits. The figures on the workforce do not include the distribution network of the insurance companies.

## [Hungary]

KBC owns 59.3% of Kereskedelmi és Hitelbank (K&H Bank), which has been ranked second in Hungary since the old K&H Bank merged with the Hungarian subsidiary of ABN AMRO in 2001. The effects of the operational merger, successfully completed in 2002 (this included the integration of the commercial networks), resulted in a vast improvement in efficiency which in turn led to much better results for 2002. A start was also made on developing a completely new computer platform. By the beginning of 2003, 100 branches were already connected to this system.

K&H Bank not only maintained its leading position in the corporate segment last year, it also succeeded in consolidating its number two position on the retail market by, *inter alia*, a sharp increase in home loans and continuous product innovation (for instance, issuing the first VISA chip cards in Hungary). As regards investment funds, the bank was able to practically double its market share to approximately 8% in 2002, taking it into third spot in this market.

KBC is active on the Hungarian insurance market via non-life insurer Argosz and life assurer K&H Életbiztositó (K&H Life). Argosz's share of the non-life market increased steadily to approximately 3.8%, due in part to the robust growth in liability insurance for motor vehicles, while K&H Life's share of the life assurance market grew more quickly than the market average and exceeded 1% for the first time. The growing success of co-operation in bancassurance between Argosz, K&H Life and K&H Bank can be seen in a number of areas, including the mounting sales of property insurance, and particularly fire insurance for private risks, via K&H Bank branches. The Argosz insurance agents also sold no less than 10% of K&H Life's new production in 2002, whereas until recently such life assurance products had been sold exclusively via the network of K&H Bank branches.

## [Poland]

After acquiring a majority stake in Kredyt Bank in the fourth quarter of 2001, KBC was required to launch a public bid for the remaining shares, so that on 31 January 2002, its shareholding came to 56.6%. Later that year, KBC also acquired a package of shares from Portugal's Banco Espírito Santo (BES) and BES's pension fund, giving it a participating interest of 76.5%.

The most important events for Kredyt Bank in 2002 were the acquisition of SKK Kredyt by Żagiel (two Kredyt Bank subsidiaries specialized in consumer credit), the completion of the bank-wide implementation of the 'Profile' computer system and the finalization of restructuring at subsidiary, Polski Kredyt Bank (PKB), where a number of activities were gradually integrated into Kredyt Bank. The remainder (essentially the banking licence) will be sold.

2002 saw Kredyt Bank implementing the standard KBC methods for loan loss provisioning. This led to considerably more provisions being set aside and – together with the integration of PKB and the downward economic spiral in Poland – resulted in Kredyt Bank's bottom line ending the year in the red. At the start of 2003, the Board of Directors of Kredyt Bank accepted the resignation of Mr. Stanislaw Pacuk, the bank's founder and CEO, due to a difference of opinion with the major shareholder regarding management style and strategy.

The KBC Group also holds a 40% stake in Warta, one of the main insurers in Poland. Warta sells its products via independent agents, salaried staff and brokers, and is collaborating with Kredyt Bank to roll out a local bancassurance concept. Here, too, the aim is to have bank branches sell simple insurance products and refer customers to the 'tied' insurance agents for the more complex ones. In 2002, the sale of insurance products through the branch network of Kredyt Bank and subsidiary Żagiel got off to a flying start.

KBC and Kredyt Bank are also joint owners of the relatively small insurance

### KBC'S PRESENCE IN HUNGARY*

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Participating interests | K&H Bank (59.3%) | K&H Life (79.7%)<br>Argosz (98.8%) |
| Ranking | 2nd | 6th in non-life, 14th in life |
| Market share | 11.9% | 3.8% in non-life, 1.1% in life |
| Number of customers | 0.8 million | - |
| Workforce (FTEs) | 3 897 | 205 |
| Branches | 163 | - |

* Figures for ranking, market share and customers are estimates. The bank's ranking is based on total assets. The market share in banking is the average share of the market for loans and customer deposits. The figures on the workforce do not include the distribution network of the insurance companies.

### KBC'S PRESENCE IN POLAND[1]

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Participating interests | Kredyt Bank (76.5%) | Warta (40.0%)<br>Agropolisa (87.2%) |
| Ranking | 6th | 2nd in non-life, 10th in life |
| Market share | 6.1% | 13.2% in non-life, 0.9% in life |
| Number of customers | 1.2 million | - |
| Workforce (FTEs) | 6 978 | 4 352[2] |
| Branches | 385 | - |

1 Figures for ranking, market share and customers are estimates. The bank's ranking is based on total assets. The market share in banking is the average share of the market for loans and customer deposits. The figures on the workforce do not include the distribution network of the insurance companies. The number of Kredyt Bank customers is based on the number of accounts.
2 Warta is not included in the staff totals appearing in the 'Personnel' section, as it is a minority interest.

company, Agropolisa. As part of the plan to restructure the KBC Group's insurance activities in Poland, negotiations have started regarding the sale of this company to Warta.

## [Slovenia]

In September 2002, the Slovenian Ministry of Finance and KBC Bank signed an agreement allowing KBC to acquire a 34% stake in Nova Ljubljanska banka (NLB). NLB is Slovenia's largest bank, with a market share of between 40 and 45% (including its main participating interests). It caters for over 900 000 customers via its network of 217 domestic branches and also has subsidiary companies specializing in leasing, factoring, trade finance and other activities.

Through co-operation with the local management of NLB, KBC aims to underpin this institution's continued expansion by, for instance, developing the bancassurance business and implementing network segmentation, transferring know-how in such areas as payments, money and capital markets, asset management and ICT, and helping it to step up its presence in other republics of the former Yugoslavia.

In 2002, NLB again succeeded in maintaining its leading position on the Slovenian banking market, despite keener competition. Particular attention was paid to broadening the traditional banking business by including asset management and bancassurance activities. As far as bancassurance is concerned, this got under way at the end of 2002 with the establishment of a joint-venture life assurance company, NLB Vita, which will sell its products through NLB's bank branches. Initially, the offering will be limited to a number of relatively simple products, though the range of insurance products will gradually be expanded and refined.

### KBC'S PRESENCE IN SLOVENIA[1]

| 31-12-2002 | Banks | Insurance companies |
|---|---|---|
| Participating interests | Nova Ljubljanska banka (34.0%) | NLB Vita (in the process of incorporation) |
| Ranking | 1st | - |
| Market share | 43.7% | - |
| Number of customers | 0.9 million | - |
| Workforce (FTEs) | 5 247[2] | - |
| Branches | 217 | - |

1 Figures for ranking, market share and customers are estimates. The bank's ranking is based on total assets. The market share in banking is the average share of the market for loans and customer deposits. The figures on the workforce do not include the distribution network of the insurance companies.
2 Not included in the staff totals appearing in the 'Personnel' section, as NLB is a minority interest.

### KEY FIGURES FOR THE MAIN SUBSIDIARIES

| | KBC shareholding | | | Net profit (in millions of EUR)[1] | | | ROE[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| Argosz | 95.4% | 98.8% | 98.8% | 0.1 | 2.0 | 1.7 | 1.7% | 19.4% | 11.0% |
| ČSOB (IAS) | 81.5% | 83.8% | 84.1% | 133.8 | 186.2 | 199.2 | 14.3% | 16.5% | 16.0% |
| ČSOB Pojišt'ovna (from 2002: ČSOB Pojišt'ovna and IPB Pojišt'ovna combined) | 75.8% | 100.0% | 84.1% | -1.5 | -1.7 | -11.6 | -21.2% | -17.8% | -27.7% |
| ERGO Poist'ovňa | - | - | 69.4% | - | - | -0.9 | - | - | -11.3% |
| K&H Bank (IAS) | 73.3% | 59.0% | 59.3% | 9.5 | 15.5 | 48.0 | 9.4% | 6.7% | 13.3% |
| K&H Life[2] | 50.0% | 50.0% | 50.0% | -0.2 | 0.0 | 0.3 | -5.8% | 0.3% | 6.9% |
| Kredyt Bank | 49.9% | 54.6% | 76.5% | 38.8 | -2.6 | -81.6 | 12.2% | -0.5% | -17.3% |
| NLB (minority interest, IAS) | - | - | 34.0% | - | - | [3] | - | - | [3] |
| Patria Finance | 91.9% | 100.0% | 100.0% | 3.4 | -1.6 | 1.9 | 29.5% | -11.8% | 13.8% |
| Warta (minority interest) | 40.0% | 40.0% | 40.0% | -7.2 | -1.8 | [3] | - | -2.0% | [3] |

1 The change to the FGBR has been included in net profit; in calculating return on equity, the FGBR has also been added to capital and reserves in the denominator.
2 K&H Bank holds the remaining 50%.
3 Figures may not be released or are not yet available.

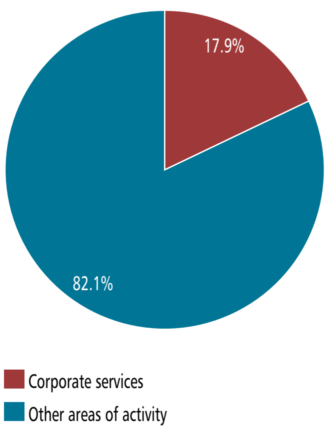
Ertan Karakoruk
Commercial Assistant
KBC Hasselt-Genk Corporate Branch

*'KBC was the one Belgian bank that dared to invest heavily in Central Europe, and our colleagues abroad also clearly share a sense of belonging to the KBC "family".'*

# CORPORATE SERVICES

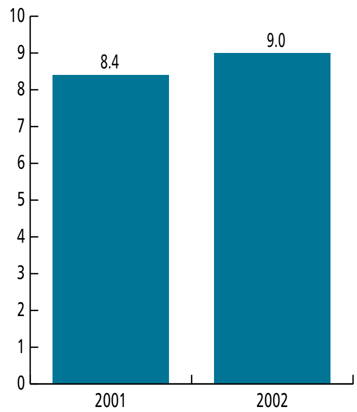
All banking and insurance services provided to corporate customers are combined under the 'Corporate services' area of activity. This includes the domestic corporate and the multinationals segments, most of the activities carried on in the international network, and the niche activities of such specialized subsidiaries as the Antwerpse Diamantbank, International Factors, ADD, Secura and the corporate finance activities of KBC Securities.

## SHARE IN GROUP PROFIT (2002)




## RETURN ON ALLOCATED EQUITY

(In %)




## CONTRIBUTION TO THE RESULT

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| **Banking** | | | |
| Gross income | 811.0 | 813.9 | 0.4% |
| General administrative expenses | -326.8 | -309.1 | -5.4% |
| Write-downs and provisions | -256.2 | -201.1 | -21.5% |
| Income taxes | -15.0 | -92.2 | - |
| Other | 0.0 | 0.0 | - |
| Profit contribution | 213.1 | 211.4 | -0.8% |
| Profit contribution, Group share | 211.4 | 197.3 | -6.7% |
| *Risk-weighted assets* | *37 009.4* | *32 327.6* | *-12.7%* |
| *Allocated equity* | *2 267.9* | *1 985.9* | *-12.4%* |
| Share in Group profit | 20.7% | 19.1% | - |
| Cost/income ratio | 40.3% | 38.0% | - |
| ROE | 8.6% | 10.1% | - |
| **Insurance** | | | |
| Earned premiums, net of reinsurance | 206.6 | 211.3 | 2.3% |
| Net technical charges | -180.2 | -173.8 | -3.5% |
| Investment income and charges | 36.5 | 29.0 | -20.4% |
| General administrative expenses | -62.6 | -62.4 | -0.3% |
| Non-recurring and extraordinary results | 0.1 | -8.8 | - |
| Income taxes | -0.9 | -0.8 | -10.9% |
| Other | -3.5 | -7.5 | - |
| Profit contribution | -3.9 | -12.9 | - |
| Profit contribution, Group share | 2.0 | -12.2 | - |
| *Allocated equity* | *121.5* | *122.2* | *0.6%* |
| Share in Group profit | 0.2% | -1.2% | - |
| Combined ratio | 117.4% | 118.4% | - |
| ROE | 2.2% | -10.0% | - |
| **KBC Group** | | | |
| Profit contribution | 209.1 | 198.5 | -5.1% |
| Profit contribution, Group share | 213.3 | 185.1 | -13.2% |
| *Allocated equity* | *2 389.4* | *2 108.1* | *-11.8%* |
| Share in Group profit | 20.9% | 17.9% | - |
| ROE | 8.4% | 9.0% | - |



## CONTRIBUTION TO THE RESULT

In 2002, this area of activity contributed 198.5 million euros to consolidated profit (including minority interests), down 5.1% on the year-earlier figure. This performance was thus good for 17.9% of Group profit (compared with 20.9% in 2001) and a return on allocated equity of 9.0% (8.4% in 2001). Allocated equity fell by 11.8% to 2.1 billion euros, which represents 25.0% of Group equity.

The income generated by the banking business remained on a par with the year-earlier level, while costs fell by approximately 5%. A number of factors boosting income, such as amounts recovered under a securitization operation and the wider margins on corporate loans in Belgium, were offset by *inter alia* a negative exchange-rate effect (primarily the depreciation of the US dollar against the euro) and the non-recurrence of gains realized on the sale of a number of immoveable assets in 2001. Net allocations to provisions were down 55 million euros on the figure for 2001, the resultant of new amounts being written down for various loans abroad, substantial provisions no longer having to be set aside for domestic corporate loans, and the release of general provisions for country risks, among other things. The higher result and non-recurrence of certain tax savings enjoyed in 2001 led to a sharp increase in taxes. Ultimately, the corporate banking business contributed 197 million euros to profit (Group share), down slightly (-7%) on a year earlier.

Corporate insurance activities made a negative contribution to Group profit (-12 million euros), due to the poorer results in the reinsurance sector, among other things. Generally speaking, 2002 was another difficult year for reinsurers, which suffered as a result of the stock market malaise. In addition, Secura's results were adversely affected by the storm damage in Belgium and the flooding in Central Europe.

## HIGHLIGHTS

### [Network rationalization]

In order to further reduce risk-weighted assets in this area of activity and increase its profitability, a variety of changes were made in the bank's corporate network in 2002. These included:

- The continued optimization of the corporate branch network in Belgium via the merger of a number of branches. At the end of 2002, there were seventeen KBC Bank corporate branches and thirteen CBC Banque main branches serving the corporate market.
- The centralization of relationship management for both government institutions and social profit institutions.
- The closure of the representative offices in Cairo and Milan.[1]
- The transformation of the Mumbai establishment (India) into a representative office.
- The relocation to one and the same address of a number of KBC entities that had previously been located throughout London.
- The repositioning of KBC Bank Nederland's activities, owing chiefly to the inability of this subsidiary to achieve critical mass and hence its profitability objectives. KBC Bank Nederland (KBCN) will now confine its corporate banking activities to relationship management and to providing operational support to the KBC Group's corporate network customers from a single office in Rotterdam, while its retail services will gradually be phased out. Meanwhile, agreement has been reached with Fortis Bank on its acquisition of the rest of the corporate banking activities and part of the retail business. An agreement has also been struck with the Hollandsche Bank-Unie, enabling it to acquire the private banking business that had been run from a single office in Rotterdam.

In China, KBC Bank NV was the first Belgian bank to receive a 'local currency' licence from the People's Bank of China. This has given KBC the opportunity to offer its corporate customers a wide range of payments services and credit facilities in the local currency (renminbi).

### [Migration to the new KBC computer platform]

One of the main projects undertaken in 2002 was the 'migration' of corporate customers to KBC's new computer platform. This proved technically more challenging than the migration of retail customers, because companies generally have a more complex product mix. At the end of 2002, two-thirds of all corporate customers had been migrated, and the operation is due to be completed by the end of 2003.

### [E-banking for businesses]

KBC Bank's e-business strategy for corporate customers is to offer them a variety of applications, including:

- KBC-Online for Business, the module in the Isabel software tool enabling Belgian corporate customers to automate their financial transactions. In 2002, various new functions were added to this package.
- KBC-Flexims, an Internet-based tool that allows companies to apply for, monitor and modify trade finance online. In 2002, a new version was rolled out, allowing more products to be processed via this system.
- The KBC Payment Button, which guarantees safe and swift payment via the Internet.
- Banxafe, jointly developed security technology for online Proton, MasterCard and Bancontact transactions.

In 2002, KBC again distinguished itself as an innovative e-business partner by providing its internationally-oriented corporate customers with access to the S.W.I.F.T. network, a first in the Benelux. Companies can use this service to remit their payment instructions to KBC without delay via the S.W.I.F.T. network, which guarantees a high degree of reliability, availability and security.

### [Relationship management]

It goes without saying that personalized relationship management remains key to KBC's corporate services. Owing to increasing globalization, however, a growing percentage of KBC's corporate

1 In Italy, customers are being served via a network desk in Verona.

customers are now 'network customers', i.e. customers that have a working relationship with different KBC establishments or specialized KBC subsidiaries (such as KBC Lease or KBC Securities) around the globe. To ensure these customers receive optimum service, a co-ordinating Relationship Management System was set up in the Belgian and the international network.

## [Corporate insurance]

In 2002, an ambitious plan conceived in 2001 and designed to make KBC Insurance a major player on the Belgian non-life and group insurance market for businesses gradually took concrete shape. A new organizational structure was put in place, divided up into four major sectors ('trade and services', 'social profit, government and education', 'industry and transport' and 'construction, agriculture and miscellaneous'), each assigned to a different manager responsible for the entire insurance process, from the offer right through to the policy stage. The corporate services activities of Fidea were also integrated into this structure, although the specific characteristics of the brokerage channel have been respected. Under this system, businesses will be served via a network of roughly 130 specialized 'corporate agents' who, in addition to managing a retail portfolio, will provide professional services to larger companies. Following the success of a pilot project in 2002, co-operation between KBC Bank's branches and these corporate agents will be stepped up in 2003. In 2002, a research project was also embarked on to fine-tune the offering of products and services to meet companies' specific requirements as much as possible.

As regards group assurance, a breakthrough was achieved primarily among larger companies, thanks to their being referred to KBC Insurance by the bank's branches. The most important product innovations included the launch of KBC Benefit Portfolio (a mixed class 23/ class 21 group assurance scheme), KBC Benefit Bonus (a class 21 group assurance scheme with profit-sharing under class 23) and the 'AssurCard-Collectief', a card enabling the insurer to pay the service-provider directly for services performed under a hospitalization insurance policy.

## [Market share]

Just as in 2001, KBC succeeded in further increasing its share of the corporate lending market in Belgium, which was put at 22.9% at the end of 2002.

## [Specialized services to companies]

Besides pure lending, KBC provides companies with a range of specialized services.

Among them is international cash management (ICM), where KBC leads the field in the provision of multi-bank solutions. As mentioned above, KBC started offering its internationally-oriented corporate customers access to the S.W.I.F.T. network at the end of 2002. It also enhanced its cross-border, multi-bank, cash pooling service through the addition of new participating banks, Kredyt Bank, K&H Bank and ČSOB. These companies' range of ICM products was expanded, too, helping the Group to achieve commercial success in this field. In collaboration with a technology partner, KBC also started developing an Internet-based, e-banking package for corporate customers in nine European countries.

As far as cross-border payments are concerned, 2002 was marked mainly by preparations for implementing the European regulation designed to bring charges for cross-border euro payments within the European Union into line with charges for domestic payments.
The resulting loss of revenue is forcing the bank to continue to find ways to cut costs. For instance, it is currently co-operating with Fin-Force to streamline processes as much as possible and is also actively co-operating in Europe-wide efforts to consolidate the fragmented national systems into a single European clearing system.

The highlight as regards interbank developments was the launch of continuous linked settlement (CLS), a system which aims to eliminate the risk attached to the settlement of interbank forex transactions via the simultaneous and irrevocable settlement of payments. KBC Bank was one of thirty-nine banks which successfully started CLS in September. CLS is expected to become the standard system for settling interbank forex transactions.

The main development as regards foreign trade was the considerable improvement in the range of documentary collection services offered (including quicker processing and the provision of more information). The commitment to the customer in terms of timing and information has been fixed in writing, and compensation will be paid in certain cases if this commitment is not met. A similar approach will also be worked out for documentary credits in the future.

Structured finance is managed from KBC Finance Ireland in Dublin, with establishments in London, New York, Hong Kong, Brussels and Sydney. It covers project finance (approximately 275 projects in 50 countries and a range of industry sectors), structured trade finance and aerospace finance (most of which is secured by latest-generation aircraft). KBC's exposure to the aviation sector is discussed in more detail in the 'Risk management' section. At the end of 2002, the entire structured finance portfolio came to roughly 5.3 billion euros.

KBC also offers its corporate clientele a variety of real estate services, including financing for real estate professionals, real estate securitization, real estate

### SHARE OF THE CORPORATE SERVICES MARKET IN BELGIUM*

| | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| Total (lending) | 20.7% | 22.4% | 22.9% |

* Market share in 2002 is an estimate based on figures for November 2002. Market share relates to credit granted to the self-employed and local businesses, as well as to medium-sized and large companies.



investment and project development. Some of KBC's main achievements in 2002 include the provision of finance for the construction of new law courts in Ghent and for the 'Sea Gate' logistics park in Ostend, the issue of two private real estate certificates and the completion of 16 000 m$^2$ of leased logistics space in Bornem, in collaboration with British-based Slough Estates. Work also continued on the development of Buelens Real Estate, a joint venture between KBC Bank and Belgian property developer Buelens, which has led to a variety of projects being undertaken for own account in Brussels, Luxembourg, Lille and Warsaw.

Leasing and factoring services, as well as insurance broking, reinsurance, derivatives and corporate finance (via KBC Securities, see 'Market activities' below) services are all provided by specialized subsidiaries.

## KEY FIGURES FOR THE MAIN SUBSIDIARIES

Besides KBC Bank NV and KBC Insurance NV, a number of their subsidiary companies are active exclusively or mainly in the provision of corporate services:

- International Factors Belgium (IFB), the joint factoring company of KBC Bank and ING/BBL, occupying the number two spot in Belgium with a market share of approximately 23%. In addition to its factoring activities, IFB, as a broker, provides credit insurance, business information and collection services.
- ADD, a subsidiary of KBC Insurance specializing in insurance broking and risk management consultancy services.
- Secura, a subsidiary of KBC Insurance specializing in reinsurance. In mid-2002, the decision was taken to abandon the search for a partner or purchaser and to continue operating independently. Secura will now restrict its activities to a number of core markets and insurance lines.
- Antwerpse Diamantbank, a subsidiary bank that specializes in global lending to the diamond trade. With a market share of more than 50%, this company is the premier financier of the diamond industry in Belgium. The opening of an office in Mumbai (India) in 2002 means that it is now present in four of the five main diamond centres in the world (Antwerp, New York, Hong Kong and Mumbai). Its share of the global market is estimated at 20%. At the start of 2002, KBC struck a deal with Henfin Holding (De Beers) concerning the sale of this company's 12.83% stake in the Antwerpse Diamantbank to KBC Bank. As a result, KBC Bank now owns virtually all of the Antwerpse Diamantbank.
- IIB Bank, a KBC Bank subsidiary, which is first and foremost a merchant bank catering for Irish businesses, with a customer base comprising most of the leading Irish companies as well as the multinationals active in Ireland. Its clients also include a large number of medium-sized companies, while its subsidiary, IIB Homeloans and Finance, serves private individuals.
- KBC Bank Deutschland, a KBC Bank subsidiary with a relatively small network of six branches, providing banking services to local medium-sized and large companies, private individuals (private banking), banks and network customers operating in Germany.
- KBC Bank Nederland (see 'Network rationalization').
- Fin-Force, a company established jointly by KBC Bank (90%) and Electronic Data Systems (10%) in 2000. It handles all of KBC Bank's international payments processing and some or all of such processing for other banks, under their 'own label'. The company's package of services also includes all ancillary services, such as the handling of enquiries and reconciling and checking accounts for its customer banks.

### KEY FIGURES FOR THE MAIN SUBSIDIARIES

| | KBC shareholding | | | Net profit (in millions of EUR)* | | | ROE* | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| ADD | 100.0% | 100.0% | 100.0% | -6.7 | -0.3 | 0.3 | -77.5% | -5.8% | 5.9% |
| Antwerpse Diamantbank | 87.2% | 87.2% | 100.0% | 24.1 | 14.4 | 21.6 | 21.5% | 12.0% | 17.0% |
| Fin-Force | - | 90.0% | 90.0% | - | 1.1 | -0.5 | - | - | -2.5% |
| IIB Bank | 100.0% | 100.0% | 100.0% | 47.4 | 53.2 | 57.8 | 19.5% | 19.2% | 19.0% |
| International Factors | 50.0% | 50.0% | 50.0% | 2.7 | 3.3 | 3.8 | 21.3% | 23.8% | 24.7% |
| KBC Bank Deutschland | 99.3% | 99.7% | 99.7% | 4.9 | 4.5 | 6.8 | 9.0% | 5.3% | 6.0% |
| KBC Bank Nederland | 100.0% | 100.0% | 100.0% | -1.9 | -7.2 | -26.8 | -2.0% | -7.6% | -34.7% |
| Investco | - | 100.0% | 100.0% | - | -3.7 | -14.6 | - | - | -44.0% |
| Secura | 52.5% | 95.0% | 95.0% | -4.5 | 0.6 | -30.3 | -4.6% | 0.4% | -17.9% |

* The change to the FGBR has been included in net profit; in calculating return on equity, the FGBR has also been added to capital and reserves in the denominator.

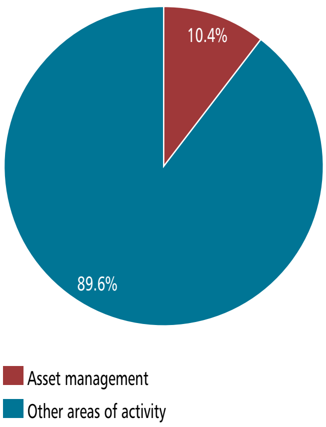
PETER VANDERHEYDEN
Actuary, Non-life Insurance – Product Policy
KBC Insurance

*'KBC doesn't pursue a cut-price strategy, it delivers quality products. It values its employees and gives managers the chance to speak out for them.'*

# ASSET MANAGEMENT

'Asset management' is the business of managing the assets of private persons, of institutional investors, and of investment funds that are sold primarily via the retail network.

## SHARE IN GROUP PROFIT (2002)

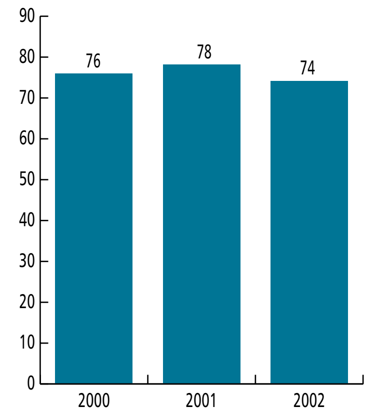



## CONTRIBUTION TO THE RESULT

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| Banking | | | |
| Gross income | 181.1 | 207.8 | 14.8% |
| General administrative expenses | -54.4 | -57.7 | 5.9% |
| Write-downs and provisions | 0.0 | 0.0 | - |
| Income taxes | -35.9 | -42.7 | 18.9% |
| Other | 0.0 | 0.0 | - |
| Profit contribution | 90.8 | 107.5 | 18.4% |
| Profit contribution, Group share | 90.8 | 107.5 | 18.4% |
| *Risk-weighted assets* | - | - | - |
| *Allocated equity* | - | - | - |
| Share in Group profit | 8.9% | 10.4% | - |
| Cost/income ratio | 30.1% | 27.7% | - |
| ROE | - | - | - |

## ASSETS UNDER MANAGEMENT

(In billions of EUR)




## CONTRIBUTION TO THE RESULT

Income from this area of activity is derived from the annual management fee and transaction fees paid by investment funds to KBC Bank for carrying out transactions in the financial markets. The retail network receives all of the entry fees for selling investment funds, along with part of the annual management fee (50 basis points on the assets under management).

In 2002, this area of activity contributed 107.5 million euros to consolidated profit, up 18.4% on the year-earlier figure. This performance was thus good for 10.4% of Group profit (compared with 8.9% in 2001).

Gross income from this area of activity grew in 2002 by 15%, as the decline brought about by the funds' lower transaction volumes was offset by higher management fees generated by, *inter alia*, a better product mix (more capital-guaranteed funds, for which a fixed management fee is charged, regardless of the value of the fund). Slightly higher charges and higher taxes consequent on the improved results led ultimately to an 18% increase, to 108



million euros, in the contribution to Group profit made by this area of activity.

## HIGHLIGHTS

### [New products]

KBC Asset Management (KBC AM), 55%-owned by the KBC Bank and Insurance Holding Company and 45%-owned by KBC Bank, provides asset management services for individuals and institutions (pension funds, insurance companies and corporates), as well as collective asset management services. All this is backed up by research, product development, advice, risk management and marketing activities. The company operates internationally, assisting KBC's Central European subsidiaries, for instance, with the development of their asset management activities and the launch of proprietary or KBC investment funds. KBC AM also manages the pension fund and the bulk of the investment portfolio of KBC Insurance.

In 2002, KBC AM launched no fewer than 108 new investment funds. Five of these were for Centea, three were introduced in collaboration with ČSOB on the Czech market and, together with K&H Bank, a first fund was rolled out on the Hungarian market.

Last year also saw KBC AM continuing to live up to its reputation as an innovator in investment services and funds. One of its many new insurance products was KBC Life Alternative Selector, offering unit-linked life assurance with investment in a selection of alternative investment funds, which seeks to achieve a return that does not depend on the performance of the traditional stock markets. A number of new innovative capital-guaranteed funds were launched as well, such as KBC EquiPlus Lock The Double 1, which allows any doubling in the value of each share in the underlying basket to be locked in. KBC Click Europe Reverse, another new product, offers sub-funds linked to the DJ EURO STOXX 50 index. These funds start out with a pre-determined maximum return and subsequently deduct any monthly drop in the index. KBC AM also launched a number of specific capital-protected unit-linked products (the KBC Life Security range), as well as products specifically designed for private banking clients.

KBC Bank has now become the first financial institution in Belgium to print share certificates for *beveks*, or open-ended investment companies, on demand. The Printing On Demand system allows securities to be printed out once a customer has subscribed to a fund. Its main advantage is that customers get the paper certificates they want faster and the bank no longer has to invest in managing a large stock of unissued paper securities.

### [Sustainable funds and sustainability screening]

KBC attaches a great deal of importance to sustainable business principles. Accordingly, KBC AM has offered customers a range of sustainable investment funds for some time now. In March 2002, it became the first bank in Belgium to set up its own in-house Sustainability Research Department to screen European companies and countries with a view to helping funds select sustainable shares and bonds and to assisting customers in their choice of sustainable investments. KBC AM's research team is supervised by an external advisory board, composed of experts in such fields as sustainable business, business ethics, environmental matters, external relations and human rights. The advisory board monitors the quality of the method and the research conducted by the KBC research team, and evaluates the completeness, reliability and accuracy of the dossiers. The results of this sustainability screening are also made available to the public at no charge on KBC AM's Web site, in keeping with its policy of active and transparent communication where its research is concerned.

In 2002, KBC AM launched KBC Institutional Fund Ethical Euro Bonds, the first sustainable bond fund on the Belgian market. Another sustainable fund it introduced is the KBC Click Solidarity 2 *Levenslijn-Kinderfonds,* a capital-protected fund invested in a basket of sustainable European shares. Moreover, a portion of the return achieved, as well as the entry fees received during the initial subscription period are donated to the *Levenslijn-Kinderfonds* charity. This is a joint initiative of the Flemish broadcasting company, VTM, and the *Koning Boudewijnstichting*, and is aimed at enhancing road safety and in particular aiding young traffic accident victims.

### [Institutional market]

In 2002, KBC AM won a net total of twenty-six new mandates to manage the portfolios of institutional customers (generally pension funds and non-profit organizations). The number of accounts managed by the VIP desk, which offers high-net-worth customers discretionary asset management services jointly with the private banking division of KBC Bank, also increased despite the stock market malaise. On 31 December 2002, the number of accounts managed for both customer groups came to a combined 285, a 17% increase on the previous year. Assets under discretionary management rose by over 10% to 3.9 billion euros by the end of the year.

### [Market share]

In 2002, KBC remained the undisputed leader on the market in investment funds or Undertakings for Collective Investment (UCIs), with a market share of no less than 30.1%, slightly more than the already high share recorded at the end of 2001 (29.3%). Last year also saw KBC

#### KBC'S SHARE OF THE BELGIAN UCI MARKET

| 31-12-2002 | |
|---|---|
| Bond funds | 20.1% |
| Equity funds | 23.3% |
| Mixed funds | 26.5% |
| Capital-guaranteed funds | 56.0% |
| Total share of UCI market | 30.1% |

expanding its share of the market in investment funds offering capital protection to 56%. KBC is European market leader in this type of fund.

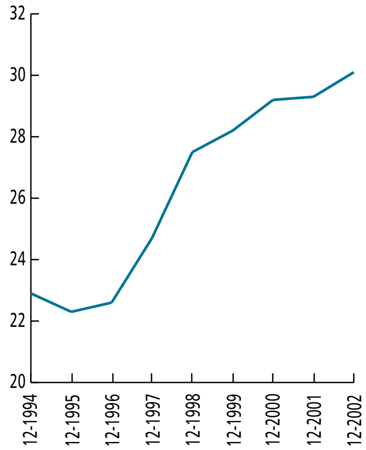
## [Total assets under management]

The climate prevailing on the financial markets in 2002 was still very negative and clearly this had an impact on the trend in total assets under management at KBC AM. On balance, these assets at year-end 2002 were down by around 5% on the year-earlier figure.

Assets under management in the retail funds dropped by 7%, the resultant of a 4% increase in volume and an 11% decline in the value of the funds themselves. The decline was primarily – and logically – accounted for by equity funds, since the capital-guaranteed funds in particular, along with the bond and money market funds did quite well. Assets managed for institutional customers fell by around 3% in 2002, but this was wholly due to a drop of some 20% experienced by the Irish subsidiary, KBC Asset Management Limited. This was in turn accounted for almost entirely by the decline in the value of the funds managed. Assets under management for private persons, lastly, showed a slight decline of 2%.

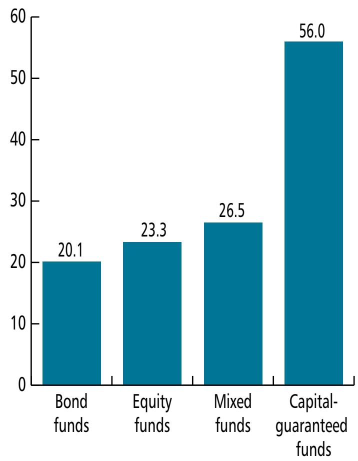
MARKET SHARE IN UCIs

(In %)




KBC'S SHARE OF THE BELGIAN UCI MARKET

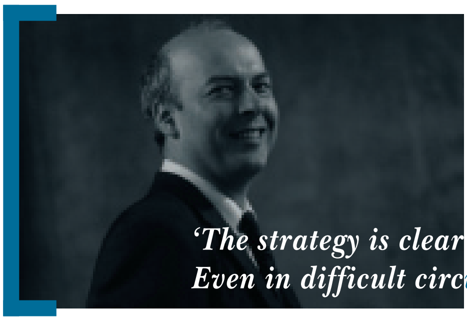
(In %)




ASSETS UNDER MANAGEMENT AT KBC AM[1]

| (In millions of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Retail UCIs** | | | | |
| Equity funds | 9 473 | 8 192 | 4 930 | -39.8% |
| Bond funds | 4 784 | 5 121 | 5 192 | 1.4% |
| Mixed funds | 4 628 | 5 437 | 4 951 | -8.9% |
| Capital-guaranteed fixed-income funds | 1 786 | 3 239 | 4 994 | 54.2% |
| Capital-guaranteed equity funds | 13 397 | 13 310 | 13 349 | 0.3% |
| Money market funds | 974 | 1 044 | 1 339 | 28.3% |
| Unit-linked products | 1 950 | 2 560 | 2 145 | -16.2% |
| Funds of funds | 3 175 | 3 171 | 2 208 | -30.4% |
| Total | 40 168 | 42 075 | 39 108 | -7.1% |
| **Assets managed for institutional investors** | | | | |
| Institutional funds | 2 879 | 3 179 | 3 490 | 9.8% |
| Third-party assets, discretionary management | 3 136 | 3 535 | 3 913 | 10.7% |
| Third-party assets, advisory management | 327 | 317 | 301 | -5.1% |
| Group assets[2] | 9 382 | 8 945 | 9 215 | 3.0% |
| KBC Asset Management Limited (Ireland) | 8 594 | 8 284 | 6 650 | -19.7% |
| Total | 24 317 | 24 260 | 23 569 | -2.8% |
| **Assets managed for private persons** | | | | |
| Discretionary management | 975 | 1 579 | 1 406 | -11.0% |
| Advisory management | 10 521 | 10 158 | 10 064 | -0.9% |
| Total | 11 496 | 11 737 | 11 470 | -2.3% |
| **Total assets under management** | | | | |
| Total | 75 981 | 78 072 | 74 147 | -5.0% |

1 In 2002, the breakdown was changed a bit, and advisory management for private persons added. As a result, the reference figures for 2000 and 2001 differ slightly from those cited in previous annual reports.
2 Including KBC Insurance and KBC pension funds.



Herbert D'Haese
Head, Commercial Sales – Treasury & Capital Markets
KBC Bank

*'The strategy is clear and everyone's working towards the same goal. Even in difficult circumstances, KBC can be dynamic and flexible.'*

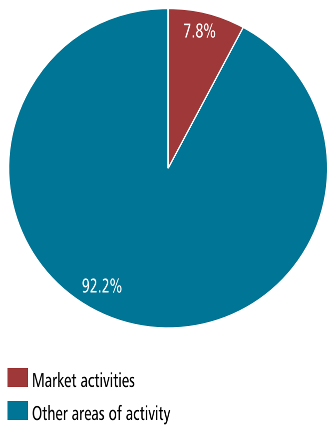
# MARKET ACTIVITIES

**'Market activities' encompass the activities of the bank's dealing rooms in Belgium and abroad, the market activities of KBC Securities, and all the activities engaged in by KBC Financial Products, KBC Clearing and KBC Peel Hunt.**

## CONTRIBUTION TO THE RESULT

| (In millions of EUR) | 2001 | 2002 | Change |
|---|---|---|---|
| **Banking** | | | |
| Gross income | 520.6 | 610.8 | 17.3% |
| General administrative expenses | -433.9 | -445.0 | 2.6% |
| Write-downs and provisions | 2.3 | -8.2 | - |
| Income taxes | -50.5 | -76.9 | 52.3% |
| Other | 0.0 | 0.0 | - |
| Profit contribution | 38.5 | 80.7 | 109.8% |
| Profit contribution, Group share | 37.8 | 80.5 | 113.0% |
| *Risk-weighted assets* | *8 933.9* | *10 340.6* | *15.7%* |
| *Allocated equity* | *1 118.5* | *1 146.8* | *2.5%* |
| Share in Group profit | 3.7% | 7.8% | - |
| Cost/income ratio | 83.3% | 72.9% | - |
| ROE | 3.4% | 6.8% | - |

### SHARE IN GROUP PROFIT (2002)



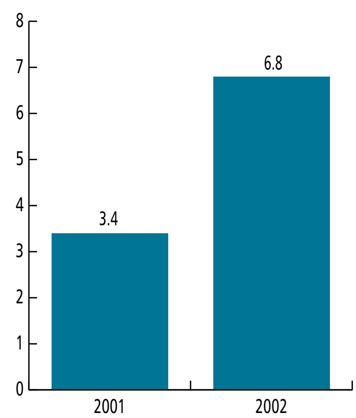

## CONTRIBUTION TO THE RESULT

In 2002, this area of activity contributed 80.7 million euros to consolidated profit (including minority interests), more than twice as much as a year earlier. This performance was thus good for 7.8% of Group profit (compared with 3.7% in 2001) and a return on allocated equity of 6.8% (3.4% in 2001). Allocated equity went up by 2.5% to 1.1 billion euros, accounting for 13.6% of Group equity.

The more than doubling of this area of activity's contribution to Group profit is attributable for the most part to the equity subsidiaries, which turned a strongly negative result in 2001 into a modestly positive one in 2002. This was in turn the resultant of the poor performance by the KBC Securities Group, which was hard hit both by the malaise on the stock markets and the initial expenses associated with restructuring (this included a rationalization of the international network – see below), and the positive figure turned in by the KBC Financial Products Group (which had ended 2001 deeply in the red), owing to its strong performance in a variety of business lines, such as the relatively new credit derivatives activity and the successful launch of Collateralized Debt Obligation transactions in 2002.

### RETURN ON ALLOCATED EQUITY

(In %)



The dealing room activities carried on in Brussels and in the subsidiaries also made a strong showing, although the dealing rooms in the branches abroad recorded a slightly negative contribution to growth, mainly because of an error in judgment regarding the interest rate trend.

The table below shows the contribution to profit made by the 'Market activities' business area, divided up into the contribution from the equity business of KBC's specialized subsidiaries and its dealing room activities.

## HIGHLIGHTS

### [KBC Bank's dealing rooms]

Under the volatile conditions that prevailed on the financial markets, the dealing rooms on the whole turned in a creditable result across a very diverse range of both trading and sales products.

The main strategic objective is still to continue to develop sales activities, and to this end the product range is being expanded steadily by the specialist Financial Engineering Desk and other departments.

Inter-professional proprietary trading is concentrated as much as possible in Brussels. Partly because of a greater focus on dealing in Central European currencies, profit quality continued to improve in this respect, as well.

Since June 2002, the dealing room in Brussels has acted as price-maker, quoting a selection of some 500 loans (Eurobonds) via an electronic platform on Bloomberg.

### [Eurobonds]

KBC was again an active player on the primary Eurobond market in 2002, participating in 350 internationally syndicated loans. In over 75% of these issues, the bank acted as lead or co-lead manager. It was also very active in the issuance and private placement of Eurobonds both for its own account and for the account of third parties. All loans for KBC's own account were issued through KBC IFIMA and slotted into the 10-billion-euro Medium Term Note programme.

On the Belgian market in commercial paper (CP) and Medium Term Notes, which more or less stagnated in 2002, the bank acted as arranger/dealer for six new issue programmes on behalf of both Belgian and foreign companies. KBC's average share of the Belgian market in CP issues came to some 25% at the end of 2002. During the first half of the year, Quasar – the Special Purpose Vehicle started up in 2001 for carrying out securitization operations on behalf of third parties – also became operational, with asset-backed bonds being purchased and refinanced via the issue of asset-backed commercial paper in Europe.

### [Syndicated loans at KBC Bank]

The new Syndication and Debt Placement Department arranges and distributes syndicated loans and acts as a competence centre for those geographical regions where KBC Bank conducts its main lending activities. In 2002, bucking the general trend, KBC's transaction volume in European syndicated corporate loans went up by 20%, while related fee income rose 12%. A successful lead syndicator, KBC arranged transactions for such companies as Pendragon and McBride in the UK, Exane and SOCRAM in France, and also set up credit lines for structured acquisition finance for the Jefferson Smurfit Group and the Cantrell & Cochrane Group in Ireland. It also worked closely together with the Central European subsidiaries, arranging funding with K&H Bank for the Municipality of Budapest, for instance.

### [Specialized subsidiaries]

**KBC Securities Group and KBC Peel Hunt**

The persistently bearish stock markets had a considerable negative impact on KBC Securities, which sustained a loss for the second year running. This prompted the company to restructure by, *inter alia*, centralizing back office and research responsibilities more or less entirely in the Brussels head office, with the branches abroad now serving mainly as commercial outposts. KBC Securities closed its office in Spain, sold its Dutch operations (opening a branch instead solely for corporate finance and centralizing sales activities in the Netherlands in Brussels) and significantly downsized its French subsidiary. This rationalization will greatly reduce future operating expenses at the consolidated level. The related restructuring expenses naturally contributed to the loss in 2002. There is still a risk position open at KBC Securities France which might lead to a substantial amount having to be written off. However, there were adequate provisions in the KBC Group's consolidated accounts at the end of 2002 to offset this.

The restructuring undertaken by KBC Securities is in keeping with its new strategy to target a double niche. First of all, building on its position as market leader on Euronext Brussels, it aims to be a key player at the Euronext level (Brussels, Paris, Amsterdam) in a number of sectors that include 'large caps'. Secondly, it intends to play a leading role in stock market activities (corporate finance, primary and secondary market) for small and medium-sized enterprises in a number of European countries. This is wholly

## MARKET ACTIVITIES PROFIT CONTRIBUTION*

| (In millions of EUR) | 2001 | 2002 |
|---|---|---|
| Subsidiaries' equity business | -57.1 | 1.2 |
| Dealing room activities | 95.6 | 79.5 |
| - Brussels | 47.0 | 57.1 |
| - foreign branches | 30.2 | -2.4 |
| - subsidiaries | 18.4 | 24.7 |
| Total | 38.5 | 80.7 |

* Using the methodology as described in 'Group result', under 'Breakdown by area of activity' (consequently, the figures differ from the stand-alone results of these companies).



consistent with KBC's general strategy to focus more on this segment.

As part of its new strategy, KBC Securities intends to co-operate more closely with its sister company, KBC Peel Hunt. This British securities house for institutional investors is one of the UK's biggest market makers in small and mid-cap shares. KBC Peel Hunt's results were also adversely affected in 2002 by the conditions prevailing on the equity markets (although less so than KBC Securities', thanks to Peel Hunt's specific focus) and the decline in corporate finance activities.

### KBC Financial Products Group

Despite the difficult market environment, the results of KBC Financial Products (KBC FP) were impressive.

The convertible bond business performed robustly, with volumes and revenues at levels comparable to those achieved in 2001. The equity derivatives business also performed well, with a significant contribution coming from the US markets, where transaction volumes were very high. The risk profile of KBC FP's European books was seriously reduced, and its results – negative in 2001 – also improved significantly. The credit derivatives business, a relatively new activity, recorded very strong revenue growth as well. In 2002, KBC FP traded in excess of 10 billion US dollars in credit default swaps and successfully concluded two managed synthetic Collateralized Debt Obligation (CDO) transactions. The convertible-bond hedge funds that were launched in co-operation with KBC Asset Management in July caused assets under management to more than double to 1 billion US dollars.

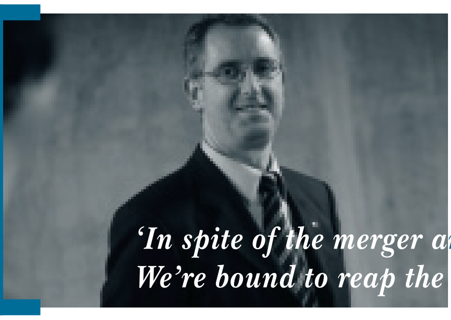
### KBC Clearing

KBC Clearing is an Amsterdam clearing house for market makers. In mid-2002, KBC Bank reached agreement with the other owners of this subsidiary to raise its shareholding from 75% to 94.9%. At the end of June, KBC Bank subscribed to KBC Clearing's capital increase (to 37.5 million euros) commensurate with this shareholding. This deal confirms KBC Bank's position as a leading service-provider for specialized players (including market makers) on the options and futures exchanges.

## KEY FIGURES FOR THE MAIN SUBSIDIARIES

| | KBC shareholding | | | Net profit (in millions of EUR) | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| KBC Clearing | 75.0% | 75.0% | 94.9% | 1.2 | 2.8 | 4.7 | 10.6% | 21.3% | 16.6% |
| KBC Financial Products (Group) | 100.0% | 100.0% | 100.0% | 96.1 | -40.2 | 50.1 | 22.4% | -5.5% | 6.0% |
| KBC Securities (Group) | 100.0% | 100.0% | 100.0% | 51.8 | -17.3 | -66.8 | 42.9% | -12.9% | -72.6% |
| KBC Peel Hunt* | 20.1% | 100.0% | 100.0% | 11.3 | 4.8 | 3.7 | 18.0% | 8.7% | 6.7% |

* 2001: shortened financial year (1 April to 31 December). Return on equity has been annualized.



JOHAN WITHOFS
Branch Manager
KBC Tongeren

*‘In spite of the merger and the euro, the branches continued to function well. We’re bound to reap the benefits of all the effort we’ve put in.’*

# RISK MANAGEMENT

**There are a number of typical risks associated with the business of banking and insurance. Credit risk, market risk and liquidity risk are the main ones affecting the banking business, while the insurance business is exposed primarily to investment risk and a variety of technical risks. On top of this, both the banking and the insurance activities are exposed to operational risks and solvency risks, as well as strategic and reputation risks. Curtailing all these risks and keeping them manageable is one of the most crucial tasks of KBC Group management.**

## RISK MANAGEMENT AT KBC BANK

### [Risk governance]

KBC Bank’s risk governance model seeks to define the responsibilities and tasks of various bodies and persons within the organization with a view to ensuring the sound management of all risks inherent in the business of banking.

The Board of Directors and the Audit Committee have an important role to play in risk governance. Regular reporting to the Audit Committee ensures that there is an ample flow of information to several members of the Board of Directors over the course of the year. Moreover, through the involvement of the entire Board in the annual round of limit approvals for the various risk positions, all Board members are able to take informed decisions on the degree of risk they find acceptable for the bank and on the adequacy of its risk management structure.

The Executive Committee designs this structure, organizes the risk-management responsibilities of its members and co-ordinates supervision of the various areas of risk. It ensures that sound risk management is a concern shared by all its members and not merely the responsibility of one specific individual. The Executive Committee also makes the necessary resources available to allow the tasks required for risk management purposes to be carried out.

In addition, the bank has a number of risk committees chaired by Executive Committee members and composed of representatives from line management and the Risk Management Division. All the reports these committees produce are submitted to the Executive Committee. These committees are:

- the Market Committee, which supervises the activities of the dealing rooms;
- the Investment Committee, which oversees Asset/Liability Management;
- the Credit Risk Committee, which is responsible for supervising the composition and quality of the loan portfolio, as well as for handling preparations for the implementation of the Basel II Accord on credit risk;
- the Operational Risk Committee, which is charged with following up policy in the area of operational risk management, as well as for handling preparations for the implementation of the Basel II Accord with regard to operational risk.

In 2002, significant advances were made in the development of risk governance: e.g., the above-mentioned Credit and Operational Risk Committees were established, credit and operational risk management – previously the responsibility of line management and other directorates – was centralized within the Risk Management Division, and information sessions were organized on market risk management for the Board of Directors. In addition, special attention was paid to passing on risk governance principles to the subsidiaries, primarily those in Central Europe. Lastly, in 2002, a start was made on preparations for putting a Group-wide (banking and insurance) risk management structure in place.

### [Credit risk]

Credit risk is the risk of non-payment occasioned by the counterparty’s insolvency or lack of willingness to pay, or by events or measures taken by the political



or monetary authorities of a particular country. The latter risk is also referred to as country risk.

## Managing credit risk

Credit risk is managed by means of rules and procedures approved by the Executive Committee regarding the acceptance process for new loan and limit applications, the process of monitoring and supervising credit risks and portfolio management. The specific procedures relating to country risk are discussed below.

### Acceptance process

Credit proposals must always be submitted in writing by a commercial entity. Applications for larger or riskier loans are screened beforehand by a credit adviser who, in formulating his advice, takes account of general lending policy, as well as risk-related aspects.

In principle, decisions are taken jointly by two or more individuals, whether meeting as a credit committee or otherwise. At least one of these individuals must be a loan officer with decision power. The Executive Committee itself will decide on the biggest and riskiest loans. The other decision levels are located on different rungs of the bank's hierarchy, ranging from the branch level to the Extended Credit Committee, whose powers are second only to those of the Executive Committee itself and whose chairman is a member of that body. Using decision matrices that take account of such parameters as the group risk total[1], the class of risk[2] and the type of counterparty (private persons, companies, governments, financial institutions), the relevant decision level is determined.

### Supervision and monitoring

In principle, a member of a credit committee will supervise decisions taken at the decision level immediately below his, by checking whether the decision is consistent with lending policy. Each loan will subsequently be subject to a periodic review. How often a loan is reviewed depends on a number of factors, including the class of risk to which it belongs. Weaker, riskier credit is reviewed at least once a year.

Besides adequate monitoring of limit-overruns and arrears of payment, continuous monitoring is conducted to detect heightened risks. The loan portfolio is regularly screened for signals that might indicate a higher credit risk and any events that substantially increase risk must be reported immediately to the competent authority at head office. Part of the loan portfolio (i.e. listed companies) is subject to additional screening for heightened risks via the KMV Credit Monitor and an in-house screening tool.

If it is not certain that a counterparty will meet his obligations on time or in full, a close watch will be kept on the credit granted to that party. In Belgium, a distinction is made between counterparties facing a short-lived liquidity crunch and those confronted with adverse developments that are structural in nature. In the first case, the network itself remains responsible for credit monitoring, while in the second, the relationship with the borrower is directed and/or managed by the Special Credit Management Division, with a view to controlling and reducing the risk and safeguarding the bank's position to the greatest extent possible. Abroad, the branch network is responsible for alert credit monitoring, although any changes made to problem loans must always be submitted to a credit committee at head office. Both in Belgium and abroad, decisions regarding problem loans are taken according to a stricter delegation matrix. A general overview of actual problem loans is submitted to the Executive Committee every quarter.

If there is a risk that a loan might entail a loss for the bank, KBC will record write-downs. For borrowers experiencing payment difficulties, the requisite write-downs are recorded in good time, account taken of the estimated loss and hence also of the collateral provided (among other things), based on the specific risk estimate made for each loan (except for smaller loans in the retail segment, for which write-downs are calculated on a portfolio basis). As a precautionary measure, write-downs may also be charged for borrowers experiencing certain difficulties though still managing to meet their obligations. For special events that might have a negative impact in the (near) future on credit quality, additional (general) provisions are set aside, too, if necessary. On top of this, a general loan loss provision is formed (based on risk class) for foreign credit risks, as well as a provision for country risk (see below).

### Portfolio management

Supervision on a portfolio basis is carried out by means of, *inter alia*, quarterly reports submitted to the Credit Risk Committee and the Executive Committee on the size and composition of the consolidated loan portfolio. The largest risk concentrations are monitored via various periodic and *ad hoc* reports. An overview is also prepared each year for the Board of Directors, showing all non-financial counterparty groups representing a net risk amounting to more than one-third of the consolidated net profit of KBC Bank.

In order to actively manage and monitor the loan portfolio, the portfolio management desk was set up, specifically to gain a good insight into the risk profile, increase the liquidity of the portfolio and co-ordinate securitization operations, among other things. KBC is active in the loan securitization market and will continue to use this technique in future to actively manage its credit risk and save on capital in the process. This desk also actively seeks out risk concentrations and reduces them by, *inter alia*, buying credit protection in the credit derivatives market.

### Central Europe

In principle, the same procedures apply for KBC Bank's majority-held Central European subsidiaries as for the other international KBC entities. Accordingly, the Central European subsidiaries have their own local decision authority, which

1 The 'group risk total' is the sum of all credit and limits that all companies in the counterparty's group already have or have applied for from all KBC Group companies. No amounts are deducted for collateral or guarantees received. Moreover, collateral is also included in the group risk total of the counterparty providing it.

2 The 'risk class' reflects the assessment of the risk relating to the credit and can be determined in two ways: the 'old' way, in which a credit is categorized on the basis of experience (from 'low risk' to 'loss'), and the new way, which is already being used for more than half of the loan portfolio. The latter is supported by a rating tool developed in-house, which is used to place a loan in a class ranging from 1 (lowest risk) to 12 (highest risk).

– as is the case for the other KBC entities – is linked to the group risk total on a consolidated basis[3] and, where appropriate, to the risk class. All applications for credit above a certain limit and all applications involving financial institutions and country limits must be submitted to head office. With regard to Nova Ljubljanska banka, in which KBC acquired a minority shareholding in 2002, various procedures are currently being streamlined, primarily with a view to the adoption of each other's best practices.

## The loan portfolio[4]

The loan portfolio detailed in the table to the right includes all payment credit, guarantee credit, standby credit and credit derivatives granted by KBC Bank and all its majority-held subsidiaries to private persons, companies, governments and banks.[5] Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds (which are used more for treasury and liquidity management purposes) and the trading book are not included.

Based on the above definition, the total portfolio of credit granted came to 143.7 billion euros at the end of 2002, roughly 4% less than a year previously. This decline can be attributed mainly to exchange rate effects, the slacker demand for credit owing to the state of the economy and (more) selective acceptance. Because KBC only has a minority shareholding in Nova Ljubljanska banka, the latter's loan portfolio has not been included in the figures.

### LOAN PORTFOLIO (INCLUDING CORPORATE AND BANK BONDS)

| | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| **Total loan portfolio (in billions of EUR)** | | | |
| Amount granted | 141.1 | 150.0 | 143.7 |
| Amount outstanding | 90.1 | 99.1 | 99.4 |
| **Loan portfolio breakdown by origin (as a % of the portfolio of credit granted)** | | | |
| Network in Belgium | 47.3% | 44.8% | 47.3% |
| Network in Central Europe | 4.2% | 10.8% | 13.2% |
| Network in the rest of the world | 48.5% | 44.4% | 39.5% |
| Total | 100.0% | 100.0% | 100.0% |
| **Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)** | | | |
| Payment credit | 81.9% | 81.9% | 79.8% |
| Standby credit | 4.9% | 4.6% | 7.2% |
| Guarantee credit | 7.5% | 7.8% | 7.1% |
| Credit derivatives sold | 0.5% | 0.6% | 0.5% |
| Bonds (only corporate and bank issues) | 5.2% | 5.1% | 5.5% |
| Total | 100.0% | 100.0% | 100.0% |
| **Loan portfolio breakdown by type of counterparty and sector (as a % of the portfolio of credit granted)** | | | |
| Private individuals | 11.6% | 13.5% | 14.7% |
| Financial and insurance services | 18.2% | 17.2% | 18.8% |
| *banks* | *12.4%* | *11.4%* | *9.1%* |
| *insurance companies* | *0.3%* | *0.2%* | *0.3%* |
| *other* | *5.5%* | *5.6%* | *9.4%* |
| Governments | 3.6% | 4.0% | 4.0% |
| Corporates | 66.6% | 65.3% | 62.4% |
| *non-financial services** | *10.2%* | *10.3%* | *11.0%* |
| *retail and wholesale trade* | *10.2%* | *10.1%* | *10.5%* |
| *real estate* | *5.4%* | *5.2%* | *5.4%* |
| *construction* | *4.2%* | *4.7%* | *4.6%* |
| *utilities (electricity and water)* | *4.7%* | *5.8%* | *4.4%* |
| *automobile industry* | *3.7%* | *3.7%* | *3.3%* |
| *chemical industry* | *3.8%* | *3.6%* | *3.2%* |
| *food industry* | *3.0%* | *3.0%* | *2.6%* |
| *agriculture, stock farming and fishing* | *2.4%* | *2.4%* | *2.5%* |
| *electronics* | *1.7%* | *1.9%* | *1.8%* |
| *oil, gas and other fuels* | *2.8%* | *1.8%* | *1.8%* |
| *metals* | *2.0%* | *1.9%* | *1.6%* |
| *telecom* | *1.7%* | *1.9%* | *1.5%* |
| *traders* | *0.7%* | *1.1%* | *1.3%* |
| *aviation* | *1.4%* | *1.2%* | *1.1%* |
| *hotels, restaurants and cafés* | *1.1%* | *1.1%* | *1.0%* |
| *shipping* | *1.1%* | *1.1%* | *1.0%* |
| *other* | *6.6%* | *4.5%* | *3.8%* |
| Total | 100.0% | 100.0% | 100.0% |
| **Loan portfolio breakdown by country rating (as a % of the portfolio of credit granted)** | | | |
| Investment-grade countries | 98.1% | 98.8% | 99.2% |
| AAA, AA and A-ranked countries and international institutions | 94.4% | 90.4% | 94.1% |
| BBB-ranked countries | 3.7% | 8.4% | 5.1% |
| Non-investment-grade countries | 1.9% | 1.2% | 0.8% |
| BB and B-ranked countries | 1.8% | 1.1% | 0.7% |
| CCC, CC, C and D-ranked countries | 0.1% | 0.2% | 0.1% |
| Total | 100.0% | 100.0% | 100.0% |

* Including services relating to consulting, education, recreation and leisure time, health care, rent and leasing (not bank-linked).

3 At Kredyt Bank, decisions on all credits were taken locally until the end of 2002. The legal restrictions on the exchange of credit-related information concerning individual counterparties require that the companies concerned give their consent to a decision being taken outside Poland. The relevant procedures have been in place since the start of 2003, so that the same method now applies for Kredyt Bank as for the other Central European subsidiaries.

4 All data on the loan portfolio, non-performing loans, write-downs and provisions, total credit risk and country risk is derived from internal risk management databases. In a few cases, the data is based on assumptions or extrapolations. The data is unaudited.

5 Not included are *inter alia* all professional transactions (placements with banks, exchange transactions, swaps, repos, reverse repos, etc.), short-term commercial transactions (documentary credit, pre-export finance, etc.) and all intragroup transactions.

### Credit risk breakdown by origin and type of credit

The Central European subsidiaries ČSOB, K&H Bank and Kredyt Bank (referred to as 'Central Europe' in the table) account for approximately 13% of the total portfolio of credit granted (or 16% of the portfolio of outstanding credit). The 'rest of the world' category (40% of the portfolio of credit granted) comprises the branches and subsidiaries in the United States (10 percentage points), Western Europe (24 percentage points) and Asia (3 percentage points), as well as a few divisions at head office (3 percentage points).

Payment credit is by far the biggest type of credit, followed by standby credit and commitment credit (guarantees). Standby credit – which includes 'liquidity backup' facilities – is increasing slightly, owing in part to the growth in the securitization markets for which it provides backup facilities.

### Credit risk breakdown by sector (a word of explanation on the most cyclically sensitive sectors or sectors which have recently shown a higher risk profile)

Aviation

This sector's share in the portfolio of credit granted continued to diminish in 2002 (from 1.2% to 1.1%). About two-thirds of the exposure is to airlines, about one-fifth to aircraft manufacturers and the remainder to airports and related services. The risk is well spread across more than sixty-five borrowers. Around half of the credit granted is secured by aircraft (actually, this is always the case where the weakest borrowers are concerned).

Telecom

This industry's share is relatively limited and diminishing, owing to very selective acceptance (from 1.9% at the end of 2001 to 1.5% a year later). Moreover, the biggest players have managed to gradually improve their solvency, which has resulted in the stabilization of the quality of credit to this sector. Both geographically and in terms of activities, this portfolio is well spread across nearly one hundred different loans. Approximately 20% is accounted for by project finance.

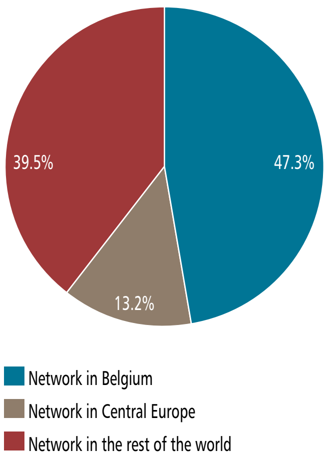
Energy (electricity, oil, gas and other fuels)

In this sector, project finance is relatively important (accounting for around one-third of the risk). The two main subsectors are the electricity (4.2% of the loan portfolio) and the oil, gas and other fuel industries (1.8%).There was a significant worsening of credit quality in the deregulated electricity market in the US and the UK. On top of overcapacity and the sharp drop in prices, the decline in economic growth and the difficulties facing a number of traders who published erroneous financial information discouraged both investors and financiers. In view of the share of US (over 40% of the exposure to the electricity sector) and British borrowers (some 30%) in KBC's loan portfolio, its quality also deteriorated to some extent. Consequently, KBC has imposed very strict limits on lending to the electricity sector, and write-downs have already been taken for the weaker loans.

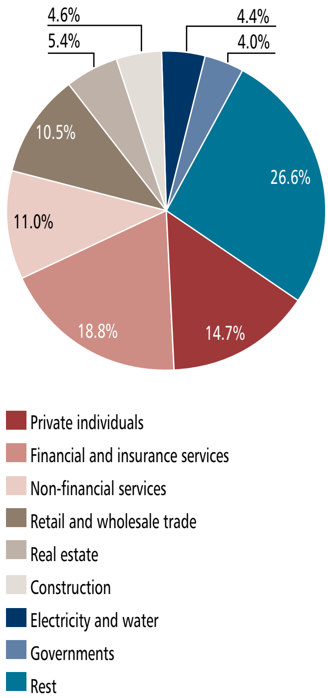
### Credit risk breakdown by country rating

The bulk (more than 99%) of the loan portfolio is accounted for by credit to borrowers (or guarantors) in investment-grade countries (i.e. countries with a rating of AAA through BBB-). The steep drop (from 1.2% to 0.8% of the portfolio) in credit to counterparties located in non-investment-grade countries can, to a large extent, be attributed to Slovakia's rating being upgraded from non-investment-grade to investment-grade. Most (some 0.7 percentage points) of the relatively limited credit risk in respect of non-investment-grade countries concerns

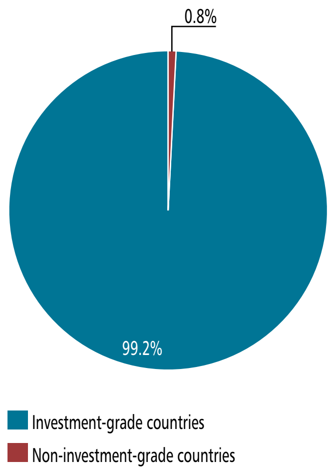
LOAN PORTFOLIO, BREAKDOWN BY ORIGIN




LOAN PORTFOLIO, BREAKDOWN BY SECTOR




LOAN PORTFOLIO, BREAKDOWN BY COUNTRY RATING



countries with BB or B ratings, mainly the Philippines, Russia (mainly performance risks), India and Turkey.

## Loan portfolio breakdown by risk

In the internal approach taken to credit risk, a distinction is made between the Expected Default Frequency (EDF) and the Expected Loss (EL), which takes account not only of the EDF, but also of the amount expected to be outstanding on default and the non-recoverable loss in that event. KBC assigns both EDF and EL ratings, and both play a part in the credit process and pricing.

Where EDF is concerned, KBC uses a scale of twelve risk classes, with 10, 11 and 12 representing defaulting borrowers (in keeping with the Basel II definition). Class 10 represents still performing borrowers and classes 11 and 12 non-performing borrowers. Class 12 includes borrowers whose credits have been cancelled or which are bankrupt.

By way of illustration, a breakdown is provided in the table to the right of the normal classes (1 through 9) for part of the corporate segment in Western Europe and the US. Bear in mind that the breakdown only reflects part of the loan portfolio (some 20 billion euros of credit granted) at this time and thus cannot be extrapolated to the entire loan portfolio.

## Non-performing loans and write-downs

Non-performing loans are loans (and corporate and bank bonds in the investment portfolio) for which principal repayments or interest payments are more than ninety days in arrears. For the time being, the 'bankruptcies and loans called in' approach is still being used for the domestic network, but the new definition is being phased in.

Roughly 2.8% of the portfolio is non-performing, some 63% of which is covered[6] by specific write-downs for non-performing loans. Taking the specific write-downs for non-performing loans and the general, credit-related provisions (see below) into account, 70.6% of the non-performing loans were covered by the end of 2002.

In 2002, the non-performing ratio went up by 19 basis points. The worsening of the economic climate and developments in certain industries had a negative, albeit limited, impact on the quality of the loan portfolio (approximately 12 percentage points).

In addition, some seven basis points of the relative deterioration in the non-performing ratio was due to the screening of the biggest portion of Kredyt Bank's loan portfolio and the subsequent

6 Contingent tax savings included.

### PART OF THE CORPORATE LOAN PORTFOLIO IN WESTERN EUROPE AND THE US, BREAKDOWN BY INTERNAL RATING

| | 31-12-2002 |
|---|---|
| EDF 1 (lowest probability of default) | 8.3% |
| EDF 2 | 20.9% |
| EDF 3 | 19.9% |
| EDF 4 | 22.7% |
| EDF 5 | 14.0% |
| EDF 6 | 10.1% |
| EDF 7 | 2.4% |
| EDF 8 | 1.1% |
| EDF 9 (highest probability of default) | 0.6% |
| Total for the 'normal' classes | 100.0% |

### NON-PERFORMING LOANS[1] (INCLUDING CORPORATE AND BANK BONDS)

| | 31-12-2000 | 31-12-2001 | 31-12-2002[2] |
|---|---|---|---|
| Non-performing loans and specific write-downs (in millions of EUR) | | | |
| Non-performing loans | 1 789 | 2 580 | 2 774 |
| Specific write-downs for non-performing loans | 1 190 | 1 551 | 1 742 |
| Non-performing ratio (non-performing loans as a % of the respective portfolios of credit outstanding) | | | |
| By origin | | | |
| Network in Belgium | 2.5% | 2.6% | 2.6% |
| Network in Central Europe | 2.9% | 5.0% | 4.6%[2] |
| Network in the rest of the world | 1.2% | 1.7% | 2.2% |
| Total | 2.0% | 2.6% | 2.8% |
| By type of counterparty | | | |
| Private individuals | 1.3% | 1.1% | 1.1% |
| Financial and insurance services | 0.2% | 0.3% | 1.6% |
| Governments | 0.0% | 0.4% | 0.4% |
| Corporates | 2.6% | 3.6% | 3.9% |
| Total | 2.0% | 2.6% | 2.8% |
| Cover ratio (specific write-downs for non-performing loans as a % of the respective, non-performing loan portfolios) | | | |
| By origin | | | |
| Network in Belgium | 67.2% | 64.8% | 68.6% |
| Network in Central Europe | 66.3% | 51.7% | 55.8% |
| Network in the rest of the world | 64.8% | 58.5% | 59.0% |
| Total | 66.5% | 60.1% | 62.8% |
| By type of counterparty | | | |
| Private individuals | 38.7% | 45.9% | 50.8% |
| Financial and insurance services | 95.4% | 86.0% | 74.2% |
| Governments | 37.9% | 70.9% | 58.8% |
| Corporates | 69.8% | 61.0% | 63.6% |
| Total | 66.5% | 60.1% | 62.8% |

1 Non-performing: in Belgium – bankruptcies and loans that have been called in; abroad – loans or paper in the investment portfolio for which principal repayments or interest payments are more than 90 days in arrears. Cover amounts take contingent tax savings into account. Excluding ČSOB's 'legacy portfolio', which is fully covered by collateral and write-downs.
2 From 2002, ČSOB's main subsidiaries are also included, resulting in a decline in the non-performing ratio for Central Europe. Without this adjustment, the non-performing ratio for Central Europe would have gone up from 5.0% to 5.2%.



recording of write-downs according to the more stringent KBC methodology. At the end of 2002, this subsidiary's non-performing ratio was put at around 12-13%. The fact that Kredyt Bank was not included in the pre-2001 figures accounts for most of the discrepancy between 2000 and 2001. The quality of lending by other entities in the Central European network is sound: disregarding ČSOB's legacy portfolio (loans pre-dating the acquisition, which are fully provisioned or secured), the non-performing ratio for ČSOB and K&H Bank is even lower than for the KBC Group as a whole.

Besides the specific write-downs for non-performing loans, KBC also sets aside specific write-downs for loans that are still classified as 'performing'. At year-end 2002, these write-downs came to some 0.5 billion euros (cover amount, including contingent tax savings). The bank also has a number of general provisions, as shown in the table of the bottom of the page.

The decline in the general provision for foreign loan losses is due mainly to an adjustment made to cancel out over-provisioning linked to a securitization operation and to a shift in favour of specific write-downs. At the end of 2002, it was also decided to reduce the provision for country risks to the level required by the Belgian Banking and Finance Commission (BFC). The surplus that was written back is intended to cushion any 'unexpected' losses, a purpose ultimately served by the bank's own funds.

The loan loss ratio shows the impact on profit of the net change in specific write-downs (and write-offs) before tax effects, and is expressed in basis points (100 basis points = 1 per cent) relative to the average gross amounts receivable from customers (in contrast to the above figures, this excludes corporate and bank bonds and off-balance-sheet items).

KBC Bank's total loan loss ratio went up from 0.36% in 2001 to 0.55% in 2002. The loan loss ratio for Central Europe can be broken down as follows: 0.34% for K&H Bank, 4.20% for Kredyt Bank and -0.62% (a net write-back, thanks mainly to amounts written back for so-called legacy loans) for ČSOB.

### Total credit risk

Of course, credit risks are not confined to the loan portfolio. Trading in securities or derivatives (forex products, swaps, options, etc.) also generates a risk in respect of counterparties with whom transactions have been carried out if the transactions have a positive replacement value for the bank. These risks are monitored via counterparty limits, which are subject to an acceptance process that is similar to the one used for loans. The settlement of a number of transactions also generates a risk that sums due will not be received. These risks are monitored via specific settlement limits for counterparties. The counterparty risks stemming from these professional transactions are reduced, wherever possible, by a number of techniques. For instance, enforceable netting contracts are concluded whenever possible, so that mutual positions can be set off in the event of default. Collateral agreements are also signed with a number of counterparties, assuring daily cover for positive market risk via the deposit of securities or cash. In addition, thanks to KBC Bank's active participation in the Continuous Linked Settlement system since September 2002, the settlement risks in respect of counterparties to forex transactions settled via this system are effectively neutralized.

Besides bonds held in the investment portfolio, securities held in the trading book also generate risks for a brief period of time. In this case, too, the relevant risks are monitored via limits. Short-term commercial transactions, such as documentary export credit and pre-export and post-import finance also entail a credit risk. Limits are used to monitor this risk, as well.

For the sake of completeness, the credit risks relating to the placement of liquid assets with financial institutions or the holding of government bonds in the investment portfolio should also be mentioned. In view of the quality of the counterparties/issuers, however, the credit risks here are limited. Moreover, a large proportion of this risk is covered by collateral (primarily reverse repos). In this case, too, the relevant risks are monitored via limits.

## LOAN LOSS RATIO

| | 31-12-2002 |
|---|---|
| Belgium | 0.29% |
| Central Europe | 1.17% |
| Rest of the world | 0.70% |
| Total, KBC Bank | 0.55% |

## GENERAL CREDIT-RELATED PROVISIONS*

| (In millions of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| General provision for foreign loan losses | 202.2 | 240.0 | 147.7 |
| General provision for the dioxin crisis and the *MestActiePlan* | 15.7 | 0.0 | 0.0 |
| General provision for country risks | 107.7 | 102.3 | 67.8 |

* Including contingent tax savings (approximate amounts, given the variety of tax régimes concerned). For Belgium, account has already been taken of the reduced marginal tax rate of 33.99% (the figures for 2000 and 2001 were also restated, account taken of this new rate).

## Country risk[7]

### Managing country risk

Country risk is managed by limits set per country and per maturity, limits which are broken down into sublimits for transfer risks and performance risks. Despite the mitigated country risk, IFC 'B' loans are also charged to the limit for transfer risks. Country risk is calculated for each country separately according to a conservative method (see below). Country exposures include risks which are actually rather limited, such as the above-mentioned performance risks, IFC 'B' loans and loans and advances to governments and credit institutions.

Proposals for setting or changing country limits are handled centrally at head office and, after independent credit advice is taken, submitted for approval to the competent level of authority. Before any new transactions are entered into, availability under the country limits and, where relevant, the relevant sublimits has to be checked. Any overruns must be cleared in advance with the bank officers who have the requisite decision authority.

7 The figures relate to KBC Bank, plus the subsidiaries in which it has a majority shareholding, but do not include the relatively limited country risk exposure of KBC Financial Products.

**Method used to calculate country risk:**

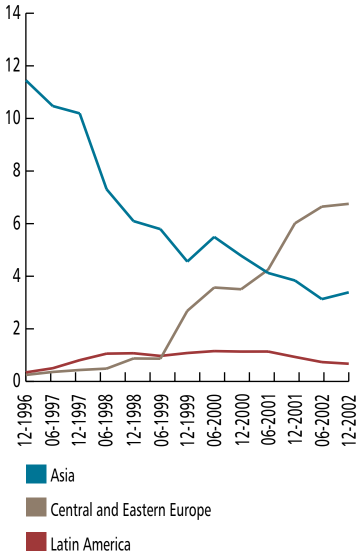
The following risks are included:
- credit, such as payment credit, commitment credit and credit derivatives, including so-called medium-term export credit, IFC 'B' loans and performance risks;
- bonds and shares in the investment portfolio;
- placements and other professional transactions, such as exchange transactions and swaps;
- short-term commercial transactions, such as documentary credit and pre-export finance.

Aside from 'other professional transactions', all transactions are given a weighting of 100% ('amount granted' for 'committed' facilities, 'amount outstanding' for 'uncommitted' facilities). The other professional transactions are calculated according to the relevant BIS regulations (mark-to-market, if positive, + add-ons).

In principle, individual transactions are charged against country limits according to the following rules:
- Fully fledged guarantees transfer the country risk to the guarantor's country.
- If a transaction is carried out with the office/branch of a company which has its head office in another country, the transaction will be assigned to the country with the lower rating, whether this is the country the office/branch is in or the country the head office is in.
- Exposure in the counterparty's national currency and risks in respect of countries in the euro zone are not included, but are reported separately.

COUNTRY RISK:
ASIA, CENTRAL AND EASTERN EUROPE, LATIN AMERICA

(In billions of EUR)




### COUNTRY RISK, 31-12-2002 (EXCLUDING TRANSACTIONS IN THE LOCAL CURRENCY)

| (In millions of EUR) | Total | | Breakdown by remaining tenor | | Breakdown by transaction type | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31-12-2001 | 31-12-2002 | ≤1 year | >1 year | IFC 'B' loans | Performance risks | Loans | Bonds & shares | Professional | MLT export finance | ST commercial |
| **Country exposure per region** | | | | | | | | | | | |
| Western Europe* | 11 188 | 10 413 | 4 873 | 5 540 | 27 | 26 | 2 531 | 1 124 | 6 361 | 249 | 95 |
| Asia | 3 838 | 3 388 | 2 221 | 1 167 | 24 | 28 | 2 276 | 267 | 712 | 7 | 74 |
| North America | 3 996 | 4 470 | 1 405 | 3 065 | 0 | 0 | 2 173 | 497 | 1 789 | 0 | 10 |
| Central and Eastern Europe | 6 013 | 6 753 | 2 063 | 4 690 | 8 | 261 | 5 107 | 745 | 587 | 7 | 39 |
| Latin America | 931 | 673 | 262 | 412 | 36 | 74 | 448 | 10 | 31 | 2 | 72 |
| Oceania | 612 | 431 | 251 | 180 | 0 | 13 | 185 | 116 | 117 | 0 | 1 |
| Middle East | 821 | 881 | 276 | 605 | 7 | 65 | 317 | 1 | 149 | 4 | 338 |
| Africa | 543 | 397 | 243 | 154 | 22 | 89 | 124 | 0 | 120 | 10 | 33 |
| International institutions | 168 | 144 | 73 | 71 | 1 | 0 | 68 | 51 | 15 | 2 | 8 |
| Total | 28 108 | 27 549 | 11 666 | 15 883 | 125 | 556 | 13 229 | 2 810 | 9 880 | 281 | 669 |
| **Problem countries (BFC list)** | | | | | | | | | | | |
| Argentina | 84 | 45 | 26 | 19 | 2 | 10 | 19 | 0 | 0 | 0 | 14 |
| Brazil | 143 | 14 | 7 | 7 | 4 | 0 | 3 | 0 | 0 | 1 | 6 |
| Indonesia | 57 | 49 | 10 | 39 | 3 | 0 | 45 | 0 | 0 | 0 | 1 |
| Russia | 157 | 206 | 40 | 166 | 0 | 202 | 0 | 1 | 0 | 3 | 0 |
| Turkey | 160 | 99 | 76 | 22 | 6 | 28 | 15 | 1 | 1 | 1 | 46 |

* Excluding the euro zone.



### Country risk

At year-end 2002, country exposure to Asia came to around 3.4 billion euros and was mainly to Taiwan, Hong Kong, Singapore, South Korea, China and Japan. Given KBC's strong presence in Central Europe, its country risk in respect of this region is fairly high. At the end of 2002, it amounted to 6.8 billion euros. Exposure to Latin America remained relatively minor (0.7 billion euros). Only 45 million euros of this amount was accounted for by Argentina (a reduction of nearly 50% on year-end 2001), and then largely by short-term commercial transactions (32%) and performance risks (21%). Brazil was responsible for just 14 million euros (compared with 143 million euros at year-end 2001, owing to the reduction mainly in short-term commercial transactions). Country risk in respect of the Middle East is likewise limited (0.9 billion euros) and was accounted for primarily by Iran (mainly commercial transactions), Israel (professional transactions), the United Arab Emirates (mainly loans) and Turkey (chiefly commercial transactions and performance risks).

The Belgian Banking and Finance Commission (BFC) requires banks to set aside loan loss provisions for a number of countries (as at 31 December 2002: Argentina, Brazil, Indonesia, Turkey and Russia), equal to a certain percentage of the outstanding credit risk (except for transactions for which the country risk is limited). It is up to the banks to decide, within a certain bracket, what percentage precisely they set aside, but KBC has always opted for the upper limit. KBC has itself added a number of countries to the BFC list (as at 31 December 2002: Cuba and Iraq). Consequently, at year-end 2002, the provision for country risks came to some 46 million euros (a cover amount of approximately 68 million euros).

## [Internal credit risk models and Basel II]

In 1999, KBC rolled out a programme designed to allow accurate, more quantitative measurement of credit risks ('Quantitative Credit Risk', QCR) with a view to, *inter alia*, enhancing the assessment and alignment of risks and return (RAROC) and developing efficient credit processes. This is consistent with the subsequently issued Basel II proposals for determining capital requirements based on a more precise estimate of the risks a bank is exposed to. Basel II – at least where it relates to credit risk – was therefore immediately addressed via the QCR programme. The objectives regarding the use of the rating tools that have been developed are thus wholly consistent with the 'use test' requirement set out in the Basel II Accord.

In this regard, KBC has naturally opted for the Internal Ratings Based (IRB) Approach. Initially, KBC will apply the IRB Foundation Approach, but will in the meantime lay the groundwork for possibly switching at a later stage to the IRB Advanced Approach. Where possible, components of this Advanced Approach are already being used in-house.

Besides developing various statistical and/or expertise-based models, the QCR programme also covers the actual introduction of the models in the network. Over the past two years, models have already begun to be used for KBC's main areas of activity in its first home market and the US, namely a statistical model for large, medium-sized and small businesses in Western Europe and the US, a model based on behavioural scores for private persons and the self-employed, a model for bank risk measurement, and a model for activities relating to commercial real estate. Most of these models also have direct implications for the credit process and the pricing of individual transactions. In Central Europe, too, a number of models are already in use. However, the calibration of scores into the twelve risk classes (see above) and the accompanying Expected Default Frequency have not yet been completed, and the implications for pricing and process differentiation are also still in the planning stage.

As mentioned above, a distinction is made in the internal approach to credit risk between the Expected Default Frequency (EDF) and the Expected Loss (EL). For illustration purposes, an EDF-based breakdown for part of the corporate segment is given above under the heading 'Loan portfolio breakdown by risk'.

## [Market risk]

Market risk is the potential for loss due to adverse changes in the value of positions held by the bank on the interest rate, foreign exchange, equity and derivatives markets.[8]

### Asset/Liability Management

#### Description

At the bank, Asset/Liability Management (ALM) entails managing the market risks attendant on balance-sheet and off-balance-sheet transactions in the banking book (i.e. all activities not belonging to the trading book, which encompasses the dealing room activities and the activities of the specialized subsidiaries).

The relevant types of risk are:

- the interest rate risk linked to the branch network's acquisition of working funds (demand accounts, savings accounts, savings certificates, etc.) and the use of those funds (via lending, among other things);
- the interest rate and equity risk linked to holding an investment portfolio of bonds and shares;
- a structural currency risk, stemming from the activities abroad (participating interests in a foreign currency, results posted at branches/subsidiaries abroad).

#### Method

The bank's ALM interest rate activities are managed via a system of market-oriented internal pricing for dated products and via a benchmarking system for undated products (demand and savings accounts, capital and reserves). For these last products, a benchmark maturity or maturity mix and a core amount (an amount that is relatively certain to remain available to the bank) are established, so that these products can be incorporated without difficulty into the internal risk-measurement system. The bank may also hold an interest rate position with a view to acquiring interest income by creating a bond portfolio using short-term funds, based on the interest rate outlook and the short- and long-term interest rate

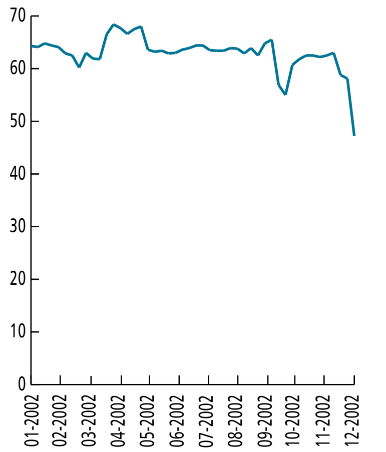
8 It also covers a number of credit risks, inasmuch as the relevant positions are held and used for trading purposes (e.g., the credit derivatives activities of KBC Financial Products).

ALM: INTEREST-RATE SENSITIVITY OF THE TRANSFORMATION POSITION
KBC BANK, CBC BANQUE, CENTEA

(In millions of EUR)

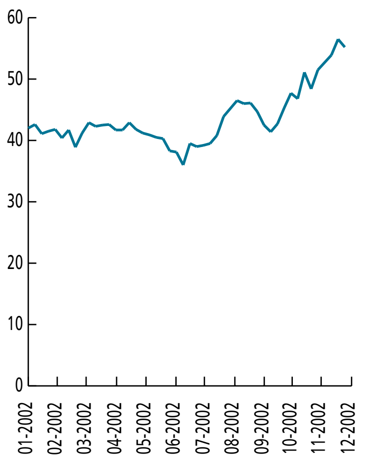

ALM: BPV OF THE TRANSFORMATION POSITION
KBC BANK, CBC BANQUE, CENTEA

(In millions of EUR)




ALM: VAR, EQUITY PORTFOLIO
KBC BANK, CBC BANQUE, CENTEA

(In millions of EUR)




gap. The entire interest rate position in these different books is referred to as the 'transformation position'. The bank also manages, in a risk-neutral way, all the activity of the branch network in products that are not covered by the benchmarking method.

In 2002, measures were taken to gradually expand the benchmarking system to the Central European subsidiaries, account taken of course of local market conditions. In that year, too, regular evaluations of the benchmarking method led to an increase in the benchmark maturity and in the core amounts for demand and savings accounts.

Where the equity investment portfolio is concerned, policy was focused on making gradual share purchases spread over a number of industry sectors on the European stock markets. On top of this, a limited number of purchases were made of Belgian and European share baskets and of European bank and insurance shares.

The bank pursues a prudent policy in managing its structural currency risk, essentially seeking to avoid currency risk as much as possible. Participating interests in foreign currency are funded by buying or borrowing the relevant currency, and income expected from activities abroad is systematically and progressively hedged at a pre-determined rate, so that the bank is only exposed to a limited extent to the impact of exchange rate fluctuations in this regard.

To monitor its vulnerability, the bank uses techniques designed to keep track of the market value (e.g., Basis-Point-Value and Value-at-Risk) and income-related aspects (e.g., by measuring interest rate sensitivity) of the bond and equity portfolios. In addition, such techniques as gap analysis, duration approach and scenario analysis are used.

## Risk in 2002

During the first nine months of 2002, the market value sensitivity of the transformation position was relatively flat, followed by a quite pronounced drop during the fourth quarter of the year.
As to interest rate sensitivity, there was a substantial decline particularly during the first quarter of 2002.

Both developments have to do with the more cautious position gradually adopted towards interest rate developments.
On the one hand, the funding maturity of interest rate positions has gradually been lengthened, accounting for the decline in interest rate sensitivity. On the other, a number of bonds were sold from the portfolio towards the end of the year, in view of the low level of interest rates (and hence the high bond prices).

The equity investment portfolio remained relatively stable during the first nine months of the year, but went up afterwards following the gradual purchases made (see above).

The table below provides an indication of the degree to which ALM interest income for the coming year (interest rate sensitivity) and the value of the portfolio (BPV) would be affected by a ten-basis-point drop (0.10%) in interest rates across the entire curve. It also shows the Value-at-

## ALM ACTIVITIES

| (In millions of EUR) | Transformation position | | Equity portfolio |
|---|---|---|---|
| | Interest rate sensitivity | BPV | VAR |
| Average, 1st quarter 2002 | 4.6 | 63.4 | 41.6 |
| Average, 2nd quarter 2002 | 3.8 | 65.2 | 40.5 |
| Average, 3rd quarter 2002 | 4.8 | 63.9 | 42.7 |
| Average, 4th quarter 2002 | 4.5 | 59.3 | 49.4 |
| End of 2002 | 3.1 | 47.2 | 55.2 |
| Maximum in 2002 | 6.5 | 68.4 | 56.5 |
| Minimum in 2002 | 2.5 | 47.2 | 36.0 |

Risk of the equity investment portfolio (ten-day holding period and 99% one-sided confidence interval).
Besides KBC Bank NV, the figures also cover CBC Banque and Centea. Aside from this, the main risk the bank group runs is a transformation risk at its Central European subsidiaries. The BPV and interest rate sensitivity of these subsidiaries were estimated at -9.1 and 0.9 million euros, respectively, at the end of 2002.

## Dealing rooms and specialized subsidiaries

### Description

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

Through its specialized subsidiaries, KBC Securities, KBC Peel Hunt, Patria Finance and KBC Financial Products, the bank group also engages in trading in equities and their derivatives, such as options and convertible bonds. Via KBC Financial Products, the bank is also becoming increasingly involved in trading in credit derivatives and in managing and providing services relating to hedge funds.

The bank is not active in the commodities markets.

### Method

To measure and monitor interest rate and forex exposures for the non-option businesses, the bank resorts to the Value-at-Risk (VAR) method. This method is designed to gauge the potential loss the bank may incur during a specific holding period, given a certain confidence interval. In applying this method, the bank uses the BIS standards (ten-day holding period and 99% one-sided confidence interval, historical data going back at least 250 days). To supplement the system, the bank uses various other instruments such as gap analysis, Basis-Point-Value, concentration limits, maturity restrictions and stop-loss limits. The FX VAR system is supplemented primarily by concentration limits.

In mid-2002, the bank switched from the variance-covariance technique to historical simulation for its VAR method. This method is not based on assumptions regarding the distribution of price changes or correlations, but rather on patterns of past experience. Moreover, this method can also be used at a later stage for option-related products.

The bank has also incorporated various yield curves into its VAR application, enhancing the capture of spread risk. These methodological changes naturally resulted in a higher VAR measurement (see table). However, because the limits were kept at the same level, the available scope for taking interest rate risks was effectively reduced.

For option-linked products, the bank uses a method which entails estimating the potential loss by means of a scenario analysis that covers a broad range of shocks to a number of significant risk components, with a limit being imposed for the most negative outcome. For this purpose, two-dimensional (e.g., shocks to the underlying and volatility) or three-dimensional (if other risk components, such as credit risk, undergo a shock) scenario analysis is used.

Positions are also tracked on the basis of one-dimensional risk benchmarks (the so-called Greeks) in order to measure risks inherent in such developments as price changes (delta and gamma), changes in volatility (vega), changes to dividends (epsilon), shifts in interest rates (rho) and the passing of time (theta).

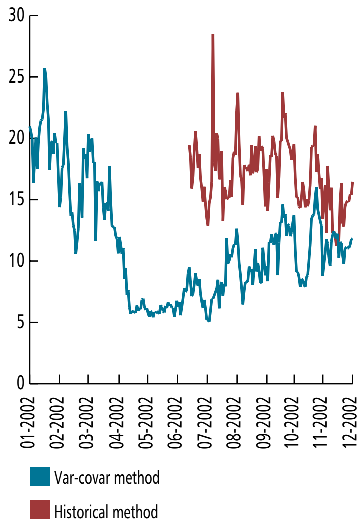
Options activities on forex and interest rate markets are limited. However, KBC is exposed to a more pronounced risk in its options business on the equity markets and in its credit derivatives activity, for which the above-mentioned three-dimensional scenario analysis has recently been introduced.

### Risk in 2002

The VAR for the bank group's interest rate trading declined during the first and at the start of the second quarter, after which it went up to a limited extent during the remainder of the year. True to

VAR, INTEREST RATE ACTIVITIES DEALING ROOMS

(In millions of EUR)




DEALING ROOM ACTIVITIES AND SPECIALIZED SUBSIDIARIES

| (In millions of EUR) | VAR - interest rate activities | VAR - forex activities | Scenario analysis, KBC Financial Products | Scenario analysis, KBC Securities |
|---|---|---|---|---|
| Average, 1st quarter 2002 | 17.7 | 1.5 | 23.4 | 8.7 |
| Average, 2nd quarter 2002 | 7.7 | 2.3 | 30.7 | 4.6 |
| Average, 3rd quarter 2002 | 8.6 [17.5] | 1.3 | 14.8 | 3.3 |
| Average, 4th quarter 2002 | 11.5 [16.5] | 1.2 | 38.9 | 1.3 |
| End of 2002 | 11.8 [16.5] | 0.8 | 57.6 | 1.0 |
| Maximum in 2002 | 25.7 [28.5] | 4.2 | 66.7 | 11.9 |
| Minimum in 2002 | 5.0 [11.2] | 0.6 | 0.0 | 1.0 |

tradition, activity on the forex markets was very limited. For dealing room activities, in general, the interest rate trend was favourable, and 2002 was marked by a consistent increase in the results, while the risk profile remained on the modest side.

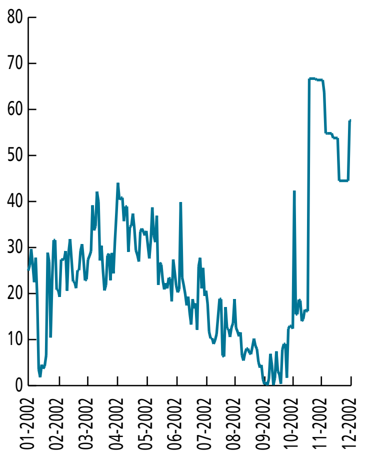
At KBC Securities, the bearish stock markets, high market volatility, and investors' aversion to equities naturally had a negative impact on the company. Its response was to cut back significantly on its trading in equities and equity derivatives. As to KBC Financial Products, it expanded its range of activities and started trading in such financial instruments as credit derivatives (which are not as directly affected by the above conditions), while becoming more actively involved in hedge fund activities. Consequently, it succeeded in improving its profitability appreciably, though its risk profile was also raised to some extent.

The table on the previous page shows the Value-at-Risk (99% confidence interval, ten-day holding period) for the bank's dealing rooms on the money and capital markets, based on the variance-covariance technique. The figures in brackets reflect the same calculation, but based on the historical simulation method. For KBC Financial Products and KBC Securities, the results of the scenario analysis are given.

The historical simulation model the bank has used since mid-2002 to estimate potential loss has proven to be a reliable tool: the number of exceptional results that overshot the model's estimate turned out to be lower than the figure expected based on the statistical confidence interval. Standard VAR estimates are now also systematically supplemented by stress-testing. This involves testing the impact of extraordinary market scenarios on the market value of the positions held. Reports in this regard are submitted to the Market Committee at regular intervals.

SCENARIO ANALYSIS
KBC FINANCIAL PRODUCTS

(In millions of EUR)




**Derivatives**

See explanatory note 36: 'Off-balance-sheet headings'.

## [Liquidity risk]

Liquidity risk relates to the loss the bank might incur if it is no longer able to fund its ordinary activities at acceptable terms.

KBC Bank is able to limit its liquidity risk thanks mainly to its stable and broad customer base and widespread international reputation. However, it also observes conservative principles in determining the core amounts for benchmarking undated products: a considerable proportion of the available funds (at least 20% of the assets on demand and savings accounts) are, for instance, invested on the very short term in order to be able to cope with any deterioration of the deposit base. Lastly, long-term funding was attracted in 2002 in order to firmly anchor the Group's liquidity position.

Over the course of the year, the bank introduced a number of new elements into its liquidity management:

- At various levels, a number of liquidity ratios and limits were introduced, following the Stock Liquidity Ratio and Liquidity Mismatch Ratio examples set by the UK's Financial Services Authority. Periodic reports are submitted to the Investment Committee, and in the event of a limit-overrun, a penalty is imposed in the form of a liquidity premium. This has already had a clear impact on policy in a number of entities.
- The volume of unutilized 'committed' lines of credit was capped. These lines can be drawn on at any time and can therefore have a major impact on the bank's liquidity management. Reports in this regard are submitted to the Credit Risk Committee on a quarterly basis.

## [Operational risk]

Operational risk is the chance of incurring a loss as a result of inadequacies or shortcomings in procedures or systems, human error or outside events.

At the start of 2002, operational risk management was integrated into the Risk Management Division. The newly established 'Operational Risk Committee' is responsible for directing and supervising the development of operational risk management within the bank. It goes without saying that line management, too, bears a heavy burden in this regard, as it has front-line responsibility for ensuring that sound management practices are developed for (*inter alia*) operational risks. To this end, local risk managers have been appointed for the various banking activities, and they report to the Risk Management Division on functional matters.

For a few years now, the bank has had a number of tools at its disposal for conducting sound operational risk management:

- In 2001, KBC completed its *Internal Control Policy Manual*, which sets out KBC's best practices for controlling process-related risks in virtually all the Group's banking and support activities. During the course of 2002, each of the business lines completed a self-assessment, comparing its specific control environment to Group-wide standards. The findings were reported to the Audit Committee in mid-2002.
- For a number of years now, KBC has also had a system in place for reporting operational losses. The handling of minor losses (under 1 000 euros) is confined to their registration in specific accounts. Bigger losses are reported on in greater detail, with the underlying causes being examined and official arrangements being made for the further handling of loss incidents.

Partly because of the additional requirements imposed under Basel II, the array



of operational risk management tools is being expanded:

- For instance, new software has been developed for capturing losses. It will be made available during the first half of 2003 to a number of key users before being rolled out for the entire Group.
- Establishing Group-wide control principles will also be integrated into a broader approach. The risk diagnostics technique will be used to pinpoint and assess operational risks inherent in a particular banking activity. Subsequently, a set of management measures will be drawn up, based on Group-wide control principles. Self-assessments and action plans should then ensure that the best practices in a specific process or activity are implemented throughout the rest of the Group. On top of this, the intention is to develop indicators which will make operational risk tangible and thereby encourage adequate monitoring. Via the periodic repetition of risk diagnostics, new insights or applications should regularly lead to the control structure being adapted or refined.

The risk diagnostics technique is already being used in a number of divisions and will be used more widely in 2003. Consequently, at the end of the year, much of the banking business will have been covered and the implementation of the loss reporting module will have begun, constituting a major step forward in the preparations for Basel II.

The bank aims to be able to use the standard method to calculate its capital requirements.

## [Solvency risk]

Solvency risk is the risk that the bank's capital base will fall below an acceptable level.

Consequently, solvency is checked against the minimum, in-house solvency ratios (tier-1 ratio and CAD ratio). In 2002, KBC Bank raised its in-house target for the tier-1 ratio from 7% to 8-8.25% and for the CAD ratio from 11% to 12%.

As can be seen from the table, KBC Bank's solvency ratios are excellent and well above the minimum requirements. A detailed breakdown of and changes in the solvency ratios can be found under 'Solvency' in the section entitled, 'Consolidated annual accounts – KBC Bank and Insurance Holding Company NV'.

### SOLVENCY RATIOS, KBC BANK

| | Minimum requirement | In-house target | Actual figure 31-12-2002 |
|---|---|---|---|
| Tier-1 ratio | 4.0% | 8-8.25% | 8.8% |
| CAD ratio | 8.0% | 12% | 13.7% |

### CERTAIN INVESTMENT GUIDELINES FOR BORROWER RISK, KBC INSURANCE

| | | |
|---|---|---|
| **Fixed-income securities** | | |
| Percentage listed | minimum 90% | |
| Percentage government bonds of OECD countries | minimum 40% | current strategic mix: 80% |
| Percentage with A rating or higher | minimum 95% | current strategic mix: 100% |
| Percentage with AA rating or higher | minimum 75% | current strategic mix: 90% |
| Percentage subordinated bonds | maximum 15% (and always with borrower rating of AA or higher) | |
| Percentage corporate bonds | maximum 20% | |
| **Equities** | | |
| Percentage listed | 100% (excluding portfolio managed by KBC Investco) | |

# RISK MANAGEMENT AT KBC INSURANCE

## [Risk governance]

With a view to achieving lasting value creation, KBC Insurance considers risk control to be an essential core activity. It has assembled a specialist team for this purpose – the Actuarial and Risk Management Department – to monitor and set policy guidelines to control risks. It does so in consultation with, *inter alia*, the Audit, Control and Compliance Department, officers responsible for day-to-day management, the auditors and the external supervisory authorities.

## [Investment risk]

These include credit risk, liquidity risk and market risks.

### Organization

The Actuarial and Risk Management Department is responsible for the continuous monitoring of the insurance group's balance-sheet risks and for advising the respective Executive Committees on the general investment strategy.

The insurance company's liabilities are broken down into more or less homogeneous groups on the basis of a number of criteria. Valuation and ALM models are used to determine the optimal composition of the investment portfolio (the strategic mix) per group, based on risk/return considerations. These exercises are repeated annually and evaluated in the Asset/Liability Committee (ALCO), which advises on changes to be made to the strategic mix. The Investments Committee in turn advises the Executive Committees of the relevant companies in this regard.

The Investments Committee meets every three months and its members include representatives from KBC Insurance and its subsidiaries, KBC Asset Management and a number of risk management and macroeconomics experts from KBC Bank and KBC Insurance. This committee also handles tactical asset allocation (within the confines of the strategic framework set by the executive committees) and the supervision of the policy pursued by KBC Asset Management.

### Investment guidelines

In addition to the strategic guidelines set per sub-portfolio, KBC Insurance also has a number of general investment guidelines designed to ensure that the quality of the investment portfolio remains sound.

#### Borrower risk

A number of the guidelines for borrower risk are shown in the table on the previous page.

#### Mismatch and duration policy

KBC Insurance seeks to achieve a minimal mismatch between its fixed-income investments and obligations bearing a fixed rate of interest. Accordingly, the maturity structure of the investment portfolio is adjusted at regular intervals to take account of the company's obligations.

#### Currency risk, congruency policy and diversification

KBC Insurance is not exposed to any significant currency risk via its investment portfolio. A minimum congruency is targeted of 90%. Where geographical diversification is concerned, the focus is on the euro zone. Decisions on the diversification of the equity portfolio across industry sectors are the purview of the Investments Committee.

As to concentration risk and 'free investments' (which do not serve as cover for the insurer's underwriting obligations), the guidelines issued by the Belgian Insurance Supervisory Authority (*Controledienst voor de Verzekeringen*) apply (derogations are only possible if authorized by the executive committees, and then only for strategic reasons).

#### Derivatives

Speculative positions and leveraging via derivatives are not allowed. Derivatives can only be used to hedge specific risks on the explicit recommendation of the ALCO and the Investments Committee and on approval by the Executive Committee.

#### Liquidity risk

Strict standards apply as regards the percentage of bonds and shares that cannot be sold within one day with a minimum deviation in price.

### Provision for financial risks

In order to cope with the risks attendant on positions in foreign currency, in securities or in other financial instruments, KBC Insurance has consistently set aside a fund for financial risks since 1999. This fund is topped up each year until a certain required amount has been reached. This amount will of course vary depending on the company's financial exposure. If the risk materializes, withdrawals will be made from this provision. In 2002, amounts withdrawn from this fund to cover lasting impairments in value had emptied the provision for financial risks by year-end.

## [Underwriting risk]

The technical or underwriting risks include tariffication and acceptance risk, the risk that the reserves will prove inadequate and the risk of insurance fraud.

### Tariffication and acceptance risk

The acceptance and tariffication policy is based on the company's own technical analyses and market data. This policy determines what risk and market combinations it is prepared to do business in and at what price it is prepared to accept the relevant risks. In order to curtail exposures even further, it also draws up an adequate reinsurance policy. When accepting an insurance risk, KBC Insurance not only takes account of its own internal rules governing acceptance, but also of external laws and regulations, such as anti-money-laundering legislation.

KBC Insurance calls on two supervisory entities to check its acceptance and tariffication policy. A certifying actuary uses technical analyses and models to determine whether the company is able to maintain underwriting equilibrium. In addition, the Audit, Control and Compliance Department ensures that acceptance and pricing meet all the relevant guidelines.

#### Non-life business

To set an appropriate price for a specific risk, all the relevant information is needed, and this is where the agent and the bank branch have an important role to play. To support its intermediaries, KBC Insurance makes available to them a whole array of instruments such as product guides, describing the kind of information that is needed and what selection criteria the proposed risks have to meet.

For a number of standard risks, sales staff use an online acceptance system that checks whether the proposed risk meets the specified acceptance criteria and then calculates the premium. If the outcome is positive, the policy can be signed straightaway; if it is negative, the information will be sent to the policy departments of KBC Insurance for appropriate acceptance and pricing. Non-standard risks must also be processed via the policy departments of KBC Insurance for acceptance.

Also absolutely essential is the constant monitoring of the actuarial return on the insurance portfolio. For this purpose, KBC Insurance uses a business-economic model to evaluate the profitability of insurance activities on an annual basis and, by means of portfolio monitoring, the quality and homogeneity of the portfolio is enhanced. Moreover, an analysis carried out per point of sale enables KBC Insurance to pinpoint distribution outlets whose technical results might be improved upon. In addition, every product officer has to keep track of the profitability of the products for which he or she is responsible, and may suggest changes.

#### Medical acceptance in the life business

Where death, sickness and disability risks are concerned, the prior medical screening of the insured is necessary to preclude 'anti-selection' and to price higher risks properly. Consequently, medical acceptance is a process designed to keep the portfolio from becoming unbalanced. In certain, exceptional cases, the process of acceptance will result in a person being refused insurance. Generally, however, higher risks are 'normalized' by charging a higher premium or taking measures to curtail risk.



Heightened risks are assessed on the basis of statistical information obtained primarily from international studies conducted by reinsurers. Obtaining medical information on prospective policyholders is of course a very delicate matter, and is conducted entirely in line with the rules of professional secrecy observed in the medical profession and with privacy legislation. The data is assessed exclusively by specially medically trained personnel.

## Adequacy of technical provisions

### Non-life business

To determine how extensive the technical provisions should be, systematic loss assessment is carried out on a case-by-case basis. Specialist claims managers for each class of non-life insurance, assisted by technical, legal and medical advisers, ensure that these assessments are constantly updated. An automated monitoring and reporting system ensures that claims managers – for all their claims files – are advised automatically at certain intervals of the need to update provisions.

### Life business

For a number of years now, a policy has been conducted that takes into account the possible negative consequences of a sustained decline in interest rates. Sizeable supplementary reserves have already been built up, primarily for those products that are most susceptible to interest rate risk. For instance, technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a rate of 4%. In addition, supplementary provisions have been accumulated progressively under the 'flashing lights' system since 2000. This system requires insurance companies to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on 10-year government bonds).

### Senescence reserves

Senescence reserves are set aside for health products contracted without a risk premium. To determine how extensive these reserves should be, account is taken of the increase in the risk attendant on the increase in age of the insured.

### Reinsurance

Provisions for outstanding accepted reinsurance contracts are estimated on a case-by-case basis. The provisions for claims for the current year are estimated on the basis of the expected technical results. The provisions for claims of earlier years are based on the estimates of the companies having the risk reinsured. For all these estimates, KBC Insurance takes a conservative approach and explicitly takes account of extraordinary loss developments and changes in interest rates.
If KBC Insurance expects a contract to result in a claim due to the nature of the risk, such as liability insurance, additional reserves are set aside for claims incurred, but not yet reported.

## Serious accidents and catastrophes

### Reinsurance programme

The insurance portfolios are protected against the impact of serious claims by means of reinsurance. Reinsurance is taken out in close collaboration with Secura, the reinsurance subsidiary of KBC Insurance, which acts primarily as a consultant.

The reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and re-negotiated every year.
Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of major claims or loss events. Where necessary, the general or 'treaty' reinsurance programme is supplemented by facultative contracts, i.e. reinsurance contracts for individual risks.

In 1993, KBC Insurance set up a reinsurance company in Luxemburg called Lucare. This company reinsures mainly the catastrophe risks the KBC Insurance Group is exposed to.

### Equalization provision

The insurance companies in the KBC Insurance Group set aside equalization provisions according to the guidelines laid down by their respective supervisory bodies.

## Claims control and anti-fraud measures

Claims are handled quickly and efficiently via the 'KBC Call Center 24+' or insurance agents using the direct claims settlement procedure. Other claims not qualifying for settlement via this procedure are handled in the area offices of KBC Insurance, which will appoint loss adjusters if necessary. Serious accidents or accidents for which specific know-how is required are handled at the Central Claim Settlement Department.

The activities of the internal loss adjusters and external advisers are monitored via a system which not only checks turnaround times and costs, but the quality of the work performed, as well. The work done by approved garages is also supervised closely. A good deal of attention is paid to assisting new loss adjusters, who are assigned an in-house claims co-ordinator as their personal coach.

All the internal claims departments and loss adjusters are provided with a list of 'flashing lights' for detecting possible cases of fraud. Any indications of possible fraud turned up by this means are looked into by specialists who may call on the Anti-Fraud Unit for assistance. This unit also conducts an active anti-fraud policy. Additionally, the company has introduced the requisite procedures for disbursements in the life business in compliance with anti-money-laundering legislation.

Lastly, mention should be made of the system KBC Insurance uses for the continuous, random checking of claims files. This serves as a tool to adjust and monitor the claims-handling process. Depending on what it turns up, changes may be made to the claims-handling process or other corrective measures taken, such as introducing of appropriate training programmes for in-house staff. The Audit, Control and Compliance Department supervises whether the random checking is carried out properly and whether claims are handled correctly.

## [Operational risk]

Operational risk is the chance of incurring a loss as a result of inadequacies or shortcomings in procedures or systems, human error or outside events.

**Departments involved**

Operational management at KBC Insurance is in the process of developing an internal control system for identifying and controlling critical operational risks. Various departments, functions and projects are involved in this process, including the Internal Audit Department, which is conducting a methodical evaluation of the existing internal control system, and – at the highest level – the Audit Committee, which assists the Board of Directors in its task of overseeing the insurance business. The Audit Committee also supervises the company's risk management and internal control, with the help of the Audit, Control and Compliance Department.

Within the KBC Group, an ICT policy has been drawn up which is aimed at safeguarding the integrity, confidentiality and availability of information and systems. To this end, numerous guidelines, procedures and codes of conduct have been drawn up. Their implementation is handled at KBC Insurance by a specially appointed Security Officer, who supports operational management in controlling operational risks that might crop up if the ICT policy does not work as it should.

**Internal Control Policy Manual**

The *Internal Control Policy Manual* sets out all the best practices, with a view to achieving an integrated and standardized internal control system for the entire insurance group. After describing best practices as far as control measures are concerned, an assessment is made by line management of the extent to which these best practices are already observed and, where necessary, describes the measures that still have to be taken. In 2002, best practices were already defined for various activities and assessed, which in certain instances led to improvement projects being undertaken. This system will continue to be used in the years ahead, and will also be implemented by the subsidiaries.

## [Value management]

At the end of 1999, KBC Insurance began developing an environment for measuring the growth of the company in terms of value creation. KBC Insurance NV's fast-growing portfolio of life assurance was tackled first.

The value of the life assurance portfolio is expressed as 'Embedded Value'. This is the sum of KBC Insurance's Adjusted Net Asset Value, or ANAV, and the discounted value of all future cash flows from the existing portfolio (Value of Business in Force or VBI), account taken of the capital charge associated with this activity. Any form of goodwill – or value of new business acquired in the future – is not taken into account.

It is not so much the absolute figure, rather the changes in embedded value that are relevant and supply information on the value created during a certain period. The method can also be used to analyse the added value of new contracts (Value of New Business or VNB) and to check the profitability of products under development (Profit Testing). It can also be used for Asset/Liability Management, to analyse the effects of changing macroeconomic and financial parameters on the company's solvency and profitability.

In June 2002, KBC published embedded value information for KBC Insurance NV for the first time. The model was also introduced in the main life assurance subsidiaries (Fidea and VITIS Life) in 2002, so that during the course of 2003, an almost wholly consolidated overview of value development with regard to life assurance at the KBC Insurance Group will be able to be made public. When announcing its results for the first quarter of 2003, KBC aims to be able to provide embedded value information for year-end 2002.

## [Solvency risk]

The insurer's solvency, just like the bank's, is checked regularly to see whether it meets the statutory and in-house targets. The in-house target for the solvency ratio (implicit ratio) is 200% (i.e. twice the statutory minimum).

Explicit solvency excludes unrealized gains and losses on the investment portfolio and came to 306% of the statutory minimum by year-end 2002. Of course, the unrealized gains on the investment portfolio dropped sharply, given the stock market malaise. As a result, the implicit solvency ratio fell from 504% to 320%, which nevertheless is still outstanding by international standards.

SOLVENCY RATIOS, KBC INSURANCE

| | Minimum requirement | In-house target | Actual figure 31-12-2002 |
|---|---|---|---|
| Explicit solvency ratio | 100% | - | 306% |
| Implicit solvency ratio | 100% | 200% | 320% |

DANIELLE LAUWEREYS
Head of Personnel Administration, Leuven
KBC Bank

***'KBC allows people to grow and offers them first-class conditions of employment. If there are financial or social problems, the company puts the individual first.'***

# PERSONNEL

**KBC aims to implement staff-friendly policies that encourage customer-centricity, efficiency, an enterprising spirit and a capacity for innovation.**

## PERSONNEL POLICY

### [Employee satisfaction]

Employees are KBC's most important resource. Their commitment, motivation and determination are the driving force behind much of the Group's success. Consequently, employee satisfaction will continue to be a main concern, as illustrated by the many new initiatives taken in 2002:

- Besides the numerous training courses organized on leadership skills and change management, new publications were also released (such as *Coach!*, a monthly magazine) to provide practical support to supervisory and management staff in their personnel duties;
- Efforts aimed at helping employees achieve a better balance between their professional and private lives continued. This included extending the pilot projects for day-care facilities and alternative working arrangements (teleworking, working in local offices, sharing workstations, etc.). In addition, many employees took advantage of the 'time credit' scheme to reduce their working hours temporarily;
- The 'time-for-money' principle was put into practice at the bank, with staff being given the opportunity to choose between receiving the premium agreed in the 2002 Collective Labour Agreement (CLA) and additional holidays;
- In compliance with new legislation passed to protect employees from violence, bullying and sexual harassment at work, a new position was created at the start of 2002 within the joint Occupational Health & Security Department to deal with such matters, and a specialist adviser appointed;
- In 2002, a survey into employee stress was carried out in the banking sector. KBC Bank generally scored better than the sector as a whole, and a number of specific points are being examined more closely with a view to adjusting the company's stress-prevention policy.
- In 2002, KBC again organized an employee stock option plan, which gave staff the opportunity to acquire a number of free stock options. Each option offered under this plan entitles the holder to buy one share for 41.18 euros during a number of specific periods. Roughly 56% of the employees concerned accepted the options on offer.

### [Negotiations with the social partners]

In 2002, the bank signed a number of important agreements with the unions. These related to:

- the implementation of the banking sector's CLA of late 2001, in which arrangements were made regarding the exchange of the CLA premium for holidays, and other, already existing arrangements were ratified regarding overtime, mobility and 'time credit';
- a new social dialogue structure, suited to the new organizational structure of the network;
- the terms and conditions governing the integration of Centea's ICT and organization departments into the KBC Bank and Insurance Holding Company;
- the new working hours resulting from the introduction of a new retail network structure (divided up into three regional areas, with branch 'clusters') designed to ensure that there is a good balance between the interests of staff and customers and the commercial and organizational needs of the bank.

On 1 January 2002, three new full-time working arrangements were introduced at KBC Insurance and Fidea, including the 4.5-day work week, alternate work weeks of four and five days, and the 4-day work week. Around 15% of staff elected to work under one of these schemes.

With the introduction of the new organizational structure, two CLAs were concluded. One is aimed at providing guidance to employees who have been transferred, another has set up a social plan for staff who cannot be transferred, with a job-mobility agency being assigned the task of coming up with individual solutions.

### [Training]

Numerous training initiatives were again taken in 2002, especially in relation to leadership skills (including workshops dealing with leadership in times of change, the training programme for new supervisory and management staff, the extension of the 'leadership mirror' project, the development of a 'leadership toolkit', etc.) and to communication and various process- and project-based skills.

At the insurance company, the Insurance School was replaced by 'Fidea Training', which aims to offer quality foundation courses and continuous training programmes to brokers and self-employed intermediaries.

Within the framework of collaboration between KBC's first home market in Belgium and the Central European entities, a wide range of training initiatives were also taken. One such scheme saw a number of young, high-potential supervisory and management staff from the Group's Central European companies following a three-month, all-round bancassurance training course in Belgium.

At the bank and at the insurance company, projects were also launched to chart the know-how and competencies of individual members of staff. This inventory was then used by the employee and his or her supervisor to draw up a plan for the employee's personal development.
More generally, co-operation was stepped up between the training departments of the bank and the insurance company in a number of areas, including e-learning, where a uniform vision was developed and joint action plans set up.

## STAFFING LEVELS

At the end of 2001, KBC unveiled a reorganization plan to reduce the workforce at KBC Bank and at the holding company by 1 650 full-time equivalents (FTEs) by the end of 2004. By the end of last year, 58% (959 FTEs) of this objective had already been achieved via natural attrition, an increase in part-time work and a strict limit on external recruitment. Consequently, when filling internal job vacancies, priority is given to employees whose job has become redundant as a result of the internal reorganization.

At the end of 2002, the KBC Group – including the principal subsidiaries in which KBC has a majority participation – employed 43 366 FTEs, compared to 43 421 at the end of 2001. This was due primarily to the inclusion of IPB Pojišťovna and ERGO Poisťovňa (Ergo) in the basis of calculation.

If the number of FTEs for 2001 is calculated on the basis of the scope of consolidation at the end of 2002 (see table at the bottom of the page), there would have been a decline of approximately 3.5% or 1 557 FTEs, largely because of downsizing at KBC Bank NV, KBC Nederland and KBC Securities (following the repositioning of their activities) and at Kredyt Bank in Poland.

As a bancassurer, the KBC Group aims to integrate banking and insurance activities, where possible. In this regard, some 2 000 staff mainly from the ICT, marketing, communication and logistics services of KBC Bank and KBC Insurance were transferred to the KBC Bank and Insurance Holding Company at the start of 2002.

The internal reorganization at KBC Bank in Belgium will of course continue in the years ahead and lead to a further reduction in the workforce. There are plans to further reduce staffing levels at the Central European banking subsidiaries, too, more specifically at Kredyt Bank (where a thorough review of the staffing level at head office and in the network is being conducted, in light of the implementation of the new computer system) and at ČSOB (planned cuts of approximately 1 000 FTEs in 2003).

The table on the next page provides a more detailed breakdown of the workforce at KBC Bank, KBC Insurance

### TRAINING, KBC BANK NV

| | 2002 |
|---|---|
| Number of persons taking a one-day training course | 9 174 |
| Average number of training days per member of staff | 3.62 |
| Estimated cost of training (in millions of EUR) | 31.0 |
| Estimated cost of training (as a % of the total payroll) | 3.2% |

### NUMBER OF STAFF*

| (In FTEs) | 31-12-2001 (based on scope of consolidation in 2001) | 31-12-2001 (based on scope of consolidation in 2002) | 31-12-2002 | Change (based on scope of consolidation in 2002) |
|---|---|---|---|---|
| **Total** | **43 421** | **44 923** | **43 366** | **-3.5%** |
| Breakdown by activity | | | | |
| Banking | 39 970 | 38 546 | 37 063 | -3.8% |
| Insurance | 3 140 | 4 019 | 3 938 | -2.0% |
| Asset management | 300 | 300 | 301 | 0.3% |
| Holding-company activities | 11 | 2 058 | 2 063 | 0.2% |
| Total | 43 421 | 44 923 | 43 366 | -3.5% |
| Breakdown by country/region | | | | |
| Belgium | 20 725 | 20 725 | 19 811 | -4.4% |
| Central Europe | 20 278 | 21 780 | 21 229 | -2.5% |
| Rest of the world | 2 418 | 2 418 | 2 326 | -3.8% |
| Total | 43 421 | 44 923 | 43 366 | -3.5% |

* KBC Bank, KBC Insurance and the KBC Bank and Insurance Holding Company, including the principal subsidiaries in which they had a majority participation on 31 December 2002. The figures do not include the distribution network of the insurance companies. The figures for ČSOB are on a company basis.

(excluding staff at their respective subsidiary companies) and the KBC holding company.

At KBC Bank, junior and middle management account for 36% of the workforce. Roughly 5% of staff work abroad (in representative offices and branches outside Belgium) and approximately 21% are employed on a part-time basis. The average age is 41.

At KBC Insurance, junior and middle management account for roughly 23% of the workforce. A negligible proportion of staff work abroad (0.3%) and about 27% are employed on a part-time basis. The average age is 40.

At the KBC Bank and Insurance Holding Company, junior and middle management account for 71% of the workforce (the ICT departments, in particular, employ quite a high percentage of junior and middle management staff). All employees work in Belgium and roughly 19% are employed on a part-time basis. The average age is 40.

Approximately 60% of KBC Bank's workforce (again excluding staff at the subsidiaries, but including the employees of the KBC holding company) is involved in commercial activities via the retail network in Belgium, the corporate segment, the private banking segment, the branches and representative offices abroad, and via market activities. The rest of the workforce is responsible for product and service development and administration (mainly for credits and payment transactions), for the development and operation of the IT systems, and for general support services (risk management, accounting, staff services, personnel department, facility management).

## STAFF STATISTICS

| 31-12-2002 | KBC Bank NV | | KBC Insurance NV | | KBC Bank and Insurance Holding Company NV | |
|---|---|---|---|---|---|---|
| | Number | % of total | Number | % of total | Number | % of total |
| Senior management | 110 | 0.8% | 44 | 2.2% | 16 | 0.7% |
| Junior and middle management | 5 003 | 36.0% | 453 | 23.1% | 1 542 | 71.2% |
| White- and blue-collar staff | 8 780 | 63.2% | 1 467 | 74.7% | 607 | 28.0% |
| Permanent | 13 865 | 99.8% | 1 832 | 93.3% | 2 163 | 99.9% |
| Temporary | 28 | 0.2% | 132 | 6.7% | 2 | 0.1% |
| Active | 12 929 | 93.1% | 1 750 | 89.1% | 2 142 | 98.9% |
| Non-active | 965 | 6.9% | 214 | 10.9% | 23 | 1.1% |
| Belgium | 13 236 | 95.3% | 1 959 | 99.7% | 2 165 | 100.0% |
| Abroad | 657 | 4.7% | 5 | 0.3% | 0 | 0.0% |
| Men | 7 502 | 54.0% | 823 | 41.9% | 1 459 | 67.4% |
| Women | 6 391 | 46.0% | 1 141 | 58.1% | 706 | 32.6% |
| 100% | 11 036 | 79.4% | 1 434 | 73.0% | 1 759 | 81.2% |
| 80%-100% | 1 463 | 10.5% | 279 | 14.2% | 296 | 13.7% |
| < 80% | 1 394 | 10.0% | 251 | 12.8% | 110 | 5.1% |
| **Total** | **13 893** | **100.0%** | **1 964** | **100.0%** | **2 165** | **100.0%** |
| **Total in FTEs** | **13 020** | **-** | **1 789** | **-** | **2 063** | **-** |

CONCETTA PERGOLA
Regional Assistant, Brabant-Centrum
KBC Bank

*'KBC has retained its identity and that makes its employees feel good. Because human values haven't been forgotten either, there's extra job satisfaction, too.'*

# 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.**

## KBC'S PRINCIPLES FOR SOCIALLY RESPONSIBLE BUSINESS

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.

### [Credit]

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.

### [Insurance]

Where insurance is concerned, KBC will, wherever the competitive room to manoeuvre allows, use appropriate techniques to counter the 'moral hazard' dilemma (i.e. the tendency of persons to take more risks when insured). KBC will ensure that its products encourage socially desirable behaviour and discourage unacceptable behaviour where risk-taking is concerned.

KBC is aware that in case of sickness, disability or death, for instance, 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.

### [Asset management]

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 macroeconomic, 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 very diverse risk profiles and features, including products and recommendations that reflect sustainable and ethical 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; see the 'Asset management' section).

### [Personnel]

In its dealings with personnel, KBC pursues an equal opportunities 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 characterized by balance between the individual's professional commitment which contributes to the company's capabilities and his or her personal development in the broad sense of the word.

To achieve this aim:

- KBC offers a competitive pay package, providing employees with 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 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 characterized by a spirit of helpfulness and professionalism.

### [Environment]

KBC is aware that the rational use of natural resources – even for a service-providing, information-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 office space 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 Eco-Management and Audit Scheme (EMAS). Fairness will be a feature of all of KBC's dealings with its suppliers.

### [Society]

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 enhance the prosperity of the communities it serves, but also to improve their well-being. KBC encourages its employees to become socially involved.

## SOME OF OUR ACHIEVEMENTS

### [Ethical investment]

- In 2002, KBC Asset Management (KBC AM) became the first asset manager in Belgium to set up its own research team to carry out sustainability analyses (see the 'Asset management' section);
- Last year, KBC AM continued to launch socially responsible products, including *KBC Click Solidarity 2 Levenslijn – Kinderfonds*, and intends to set up similar projects in the future. Indeed a new product has already been launched in the early part of 2003 in collaboration with *Kom op tegen Kanker*;
- KBC aims to increase its share of sustainable investment products to match the market percentage, in part by further expanding its range of products and carrying out its own analysis into sustainable investments.

### [Environmental management]

- 2002 saw the launch of KBC's Environmental Service. An important part of this service is the environmental policy, which provides cover for soil decontamination and watercourse cleansing, with KBC organizing and co-ordinating the clean-up operation itself. The service was designed for small and medium-sized enterprises (SMEs) and includes EIF-backed environmental loans, bank soil decontamination bonds and advice on government aid and risk management services.
- KBC's commitment to protecting the environment is also reflected via ARGUS (the former *Stichting Leefmilieu*). With the exclusive financial and logistical support of KBC, ARGUS draws up an autonomous programme of information and awareness-raising projects on environmental conservation, aimed specifically at young people, SMEs and households.
- KBC Bank is also committed to managing and restricting any direct impact it may have on the environment. KBC has long adhered to a number of rules to ensure that natural resources, such as paper, water and electricity, are used rationally. In 2002, a variety of initia-

tives and projects in this regard were launched, as well (see table).

## [Staff coaching]

- The personnel function does its utmost to ensure that members of staff whose job has become redundant because of the merger are moved to another post.
- A variety of projects were launched in relation to leadership skills.
- Individual employees were given the opportunity to carry out self-appraisal tests, so they could compare their own ambitions with those of the organization, and the organization could put the right person in the right job.
- In 2002, pilot projects for day-care facilities were launched at the head offices. Additional initiatives of this nature may be taken in the future.

## [Community projects]

- KBC works together with the *Bonnevie* community house and a number of other organizations to improve the quality of life in the neighbourhood around its Brussels head office. The local business centre, which provides guidance to start-up businesses, receives financial support, as well.
- In Antwerp, KBC actively supported *Betet Skara*, an enterprise which aims to help integrate Turkish-Assyrian refugees into the labour process by employing them in a traditional weaving mill, as well as the *Meisjeshuis Antwerpen-Zuid*, which focuses on the emancipation of immigrant girls.
- Via its Solidarity Fund, KBC pays subsidies to its employees in order to encourage them to work for charitable causes in their spare time.
- The Czech subsidiary ČSOB played a prominent role in helping the victims of the Summer floods in the Czech Republic, donating 26.5 million Czech koruna in the form of direct aid, and providing indirect aid by granting special rates, deferring payments and cancelling charges for bank services in the areas hit by the floods.
- ČSOB has also worked closely since 1995 with ‘The Committee of Good Will – Olga Havlova Foundation’ on healthcare, education, social care and human rights projects.
- Last year, KBC also participated in a variety of campaigns, including a scald-prevention campaign for the protection of small children and a campaign aimed at getting children to school safely in an environmentally-friendly way.

### EXAMPLES OF INITIATIVES TO MANAGE NATURAL RESOURCES

| | |
|---|---|
| Reduction of paper consumption | Target: a 25% reduction by the end of 2003. Consumption already cut by 10% by the end of 2002. |
| Discontinuation of microfiche use | Microfiches contain chemicals that are harmful to the environment. Target: to phase out their use by the end of 2003. In 2002, their number was reduced from 480 000 to 200 000. |
| Energy accounting | Detailed energy accounting records are kept for each administrative building, enabling energy consumption to be analysed and optimized. |
| Sustainable generation of electricity | In certain buildings, 35% of the electricity supplied should be generated in a sustainable way. |
| Investment in rational energy consumption | In new and renovated buildings, use is made of energy-efficient lighting and air-conditioning systems, where possible. |
| Establishment of a waste register | In 2002, a programme was launched to set up a register to identify waste flows, so that they can be analysed and optimized. |

FILIP BONTE
Branch Manager
KBC Bellegem

*'KBC has a really positive image and you're given the freedom to be creative. OK, it can be bureaucratic at times, but when necessary you can get things done fast.'*

# CORPORATE GOVERNANCE

## GROUP STRUCTURE

As a financial holding company, the KBC Bank and Insurance Holding Company co-ordinates the activities of KBC Bank, KBC Insurance and KBC Asset Management. Within this group structure, tasks and responsibilities are divided up as follows:

### KBC Bank and Insurance Holding Company

The KBC Bank and Insurance Holding Company ('the holding company') is responsible for the Group's general strategy, the allocation of capital, profitability requirements, major strategic investments, risk management in the broad sense, general ALM policy, supervising the coherence of budgets, the profit planning of the banking and insurance businesses, and the audit function at the co-ordinating level.

The holding company acts as the driving force in the integration of the banking and insurance activities and encourages the establishment of a number of committees for consultation between them. It is also involved in establishing the policies for the appointment and remuneration of directors and general managers.

At the start of 2002, a number of support services were transferred to the holding company (primarily marketing, communication, logistics and IT) as part of the policy to integrate certain banking and insurance services as much as possible. By means of a cost-sharing structure, the cost of these services is allocated according to objective criteria amongst the Group companies.

### KBC Bank and KBC Insurance

KBC Bank has competence in all matters specific to the banking business:

- all bank-related matters, such as the lending function, the securities business, corporate and investment banking activities, and dealing room activities;
- the organization and supervision of these bank-related matters, including risk management, audit and compliance, ICT, control and accounting, personnel policy (without prejudice to the above-mentioned role of the holding company as regards appointments and remuneration) and logistic support;
- the drafting and implementation of commercial policy within the strategic framework defined by the holding company.

KBC Insurance has competence in all matters specific to the insurance business:

- all insurance-related matters, particularly all those inherent in the underwriting policy, such as the pricing and acceptance of risks, the claims-handling policy, the investment policy and the appropriation of the result with a view to enabling the insurance company to build up the capital required in business-economic terms;
- the organization and supervision of these insurance-related matters, including profitability management, financial management, protection of the rights of the insured and beneficiaries, audit and compliance, ICT, control and accounting, personnel policy (without prejudice to the above-mentioned role of the holding company as regards appointments and remuneration) and logistic support;
- the drafting and implementation of commercial policy within the strategic framework defined by the holding company.

KBC Bank and KBC Insurance are empowered to delegate specific responsibilities to mixed committees (management committees) comprised of representatives of the bank and insurance company. This delegation occurs under the responsibility of the insurance company and the bank, respectively. These management committees were set up for the areas of activity of retail and private bancassurance, corporate services, market activities, asset management and Central Europe.

### KBC Asset Management

The Group's asset management activities are handled by KBC Asset Management. This spin-off reflects the independent nature of asset management and demonstrates the considerable importance the Group attaches to this area of activity, which is equally important to both the banking and insurance business.

## MANAGEMENT STRUCTURE

The management structure of the KBC Bank and Insurance Holding Company is based on a distinction between:
- the determination of general strategy, the supervision of management, and the exercise of the specific powers laid down in company law and the Articles of Association, tasks that fall within the competence of the Board of Directors;
- the management of the holding company, a task conducted autonomously by the Executive Committee, which comprises managing directors and which acts within the framework of the general strategy defined by the Board of Directors.

This dual management structure is set out in the Articles of Association, in the agreement on the autonomy of the banking business concluded among the KBC Bank and Insurance Holding Company, KBC Bank and the Belgian Banking and Finance Commission, and in the matching agreement on the autonomy of the insurance business concluded by the KBC Bank and Insurance Holding Company, KBC Insurance and the Belgian Insurance Supervisory Authority.

## BOARD OF DIRECTORS

### [The composition and activities of the Board of Directors]

The activities of the Board of Directors ('the Board') are regulated by the Companies Code and the Articles of Association.

Information regarding the composition of the Board and of the Executive Committee, the capacity of the directors as representatives of the principal shareholders or as independent directors, the main function of each director and the date upon which his term of office comes to an end is given in the table. The designation 'independent director' is based on the relevant definition used by Euronext Brussels.

In 2002, the following changes occurred in the composition of the Board:
- Messrs. Rudy Broeckaert, Ghunald Loyaerts and Clément Selleslagh stepped down as directors and members of the Executive Committee at the General Meeting of Shareholders of 25 April 2002 (see annual report for 2001). They have been awarded the title of honorary managing director.
- At the same meeting, Mr. Paul Peeters was appointed director, replacing Mr. Guido Van Roey who retired from the office of director.
- Mr. Paul Tanghe retired as director and was replaced by Mr. Germain Vantieghem with effect from 27 June 2002.
- Mr. John Goossens died on 8 November 2002. With his death, KBC lost a very competent director and the Board of Directors an esteemed colleague.

### [Meetings of the Board in 2002]

The Board met twelve times in 2002; the meetings were attended by virtually all members.

Besides carrying out the activities required under the Companies Code (such as preparing the consolidated and non-consolidated annual financial statements and the annual report for the 2001 financial year, setting the agenda for the Annual General Meeting of Shareholders and proposing how profit should be appropriated), monitoring the monthly performance of KBC Bank, KBC Insurance, KBC Asset Management and their respective subsidiaries, reviewing the quarterly results and the activities of the Audit and Remuneration Committees, the Board also dealt with the following matters:

## COMPOSITION AND ACTIVITIES OF THE BOARD OF DIRECTORS

| | |
|---|---|
| Chairman | A member of the Board who is not a member of the Executive Committee. |
| Members | 22 (on 31 December 2002)*, appointed by the General Meeting of Shareholders and consisting of managing directors (who together constitute the Executive Committee), representatives of the principal shareholders and independent directors. |
| Legal persons holding the office of director | None. |
| Term of office | No longer than six years and expires after the Annual General Meeting. Directors leaving office are eligible for re-election by the General Meeting. An age limit of 70 years of age is in force for non-executive directors and one of 65 for managing directors. |
| Appointments | Proposals to appoint non-executive directors have to be submitted to the Board by the Agenda Committee that acts in this matter as an appointments committee. In the appointment of directors and the renewal of their terms of office, consideration is given to creating a balance between a knowledge of banking and insurance, the interests of the shareholders and external management expertise. |
| Meetings | In principle, ten a year.<br>Additional meetings are held whenever the interest of the company demands. |
| Resolutions | A simple majority of votes is required to pass resolutions.<br>In the case of a tie-vote, the chairman of the meeting has the deciding vote.<br>In practice, the Board acts collectively and resolutions are passed by consensus.<br>Where the law allows, the resolutions of the Board may be passed by unanimous written agreement of the directors. |
| Information | All memoranda explaining agenda items have to be circulated to Board members at least three days prior to a meeting (unless this is impracticable), so that, if they so desire, Board members can obtain additional information from the Chairman of the Board or from members of the Executive Committee prior to the meeting.<br>Directors will be briefed between meetings if any important events occur which affect the KBC Group. |
| Advice | Directors may, at the company's expense, seek the advice of an independent expert, if this initiative is approved by a majority of non-executive directors on the basis of a reasoned request. |

* This exceeds the number recommended by Euronext Brussels and the Belgian Banking and Finance Commission as regards corporate governance, because the eight members of the Executive Committee also have a seat on the Board and because, both in the above-mentioned agreements on the autonomy of the banking and insurance businesses and in the corporate governance recommendations, it is stipulated that the Board must have a majority of non-executive directors serving on it.



- the establishment of the strategy to be pursued by the KBC Bank and Insurance Holding Company;
- the expansion in Central Europe (including the participating interests in Nova Ljubljanska banka and Ergo, and the acquisition of IPB Pojišt'ovna);
- the development and strategy of the various areas of activity;
- the approval of the Audit Charter;
- the extent to which the aims of the merger had been achieved;
- the approval of the profit plan for 2003.

In addition, it renewed the authorization to grant KBC stock options to the Chairman of the Board, the members of the Executive Committee and the employees of the KBC Group.

The Board, approving, also took cognizance of the resolution passed by the Board of Directors of KBC Bank regarding those persons (including the President of the Executive Committee and one director) placed under suspicion in 2002 in the judicial inquiry into the participation exemption case (the so-called *FBB-dossier*). KBC Bank will pay for the legal defence and indemnify the persons concerned against financial liability ensuing on any possible conviction. In that case, the Board confirmed that the persons who had been placed under suspicion had its full support and confidence.

## [Management supervision]

In order to permit the Board to fulfil its supervisory task, the Executive Committee reports to it each month on the trend of results at KBC Insurance and KBC Bank. The Board monitors these results and checks them against the profit plan it has approved.

In addition, the Board keeps abreast of the general course of business at KBC Insurance, KBC Bank and KBC Asset Management, as well as of major events or projects that have taken place since the previous Board meeting. The Board may also request from the Executive Committee or the auditor special reports on all matters that could have a material impact on the company. The Board and its Chairman may require that all information or documents be submitted to it and may have inquiries carried out.

A key role in the Board's supervisory activities is played by the Audit Committee (see page 73).

## [Supervision of subsidiaries and companies in which a participating interest is held]

Because the KBC Bank and Insurance Holding Company is a financial holding company whose object is to keep and manage, both directly and indirectly, its holdings in KBC Bank, KBC Insurance, KBC Asset Management and their respective subsidiaries, the deliberations of the Board are focused on supervising the activities and the performance of these subsidiaries and companies in which participating interests are held.

The Board monitors developments at the sub-subsidiaries for the purpose of the

### COMPOSITION OF THE BOARD OF DIRECTORS ON 31-12-2002

| Name | Primary responsibility | End, current term of office | Non-executive directors | Representatives, principal shareholders | Independent directors | Executive Committee | Audit Committee | Agenda/ Appointments Committee | Remuneration Committee |
|---|---|---|---|---|---|---|---|---|---|
| Willy Breesch | Chairman of the Board of Directors | 2004 | ■ | | ■ | | ■ | ■* | |
| Jan Huyghebaert | Vice-Chairman of the Board of Directors/Chairman, Almanij NV | 2008 | ■ | ■ | | | ■ | ■ | ■ |
| Remi Vermeiren | President of the Executive Committee | 2007 | | | | ■ | | ■ | |
| Willy Duron | Vice-President of the Executive Committee | 2004 | | | | ■ | | ■ | |
| Herman Agneessens | Managing Director | 2006 | | | | ■ | | | |
| Emile Celis | Managing Director | 2004 | | | | ■ | | | |
| Jozef Cornu | Managing Director, Alcatel NV | 2008 | ■ | | ■ | | | | ■* |
| Christian Defrancq | Managing Director | 2004 | | | | ■ | | | |
| Rik Donckels | Member of the Executive Committee, Cera Holding CV | 2004 | ■ | ■ | | | ■ | ■ | |
| Frans Florquin | Managing Director | 2004 | | | | ■ | | | |
| Herwig Langohr | Professor, INSEAD | 2007 | ■ | | ■ | | ■ | | |
| Thomas Leysen | Managing Director, Umicore NV | 2008 | ■ | ■ | | | | | ■ |
| Xavier Liénart | Director, DraftWorldwide Belgium | 2004 | ■ | ■ | | | | | |
| Paul Peeters | Director, Pharmacia NV | 2004 | ■ | ■ | | | | | |
| Luc Philips | Managing Director | 2005 | | | | ■ | | | |
| Theodoros Roussis | CEO, Ravago Plastics NV | 2008 | ■ | ■ | | | ■ | | |
| Patrick Vanden Avenne | Managing Director, Vanden Avenne-Ooigem NV | 2004 | ■ | ■ | | | | | |
| Jan Vanhevel | Managing Director | 2003 | | | | ■ | | | |
| Germain Vantieghem | Member of the Executive Committee, Cera Holding CV | 2004 | ■ | ■ | | | ■ | | |
| Ferdinand Verdonck | Managing Director, Almanij NV | 2004 | ■ | ■ | | | ■* | ■ | |
| Marc Wittemans | Director, Maatschappij voor Roerend Bezit van de Belgische Boerenbond CV | 2004 | ■ | ■ | | | ■ | | |
| Alfons Wouters | Chairman, Board of Directors, KBC Insurance NV | 2004 | ■ | | ■ | | ■ | | |

* Chairman of the committee.
Secretary to the Board of Directors and the Executive Committee: Jos Aerts.
Auditor: Ernst & Young Bedrijfsrevisoren BCV, represented by Jean-Pierre Romont and Danielle Vermaelen.

financial statements on the consolidated results. Whenever major developments occur at these companies, the Board is informed thereof on an *ad hoc* basis.

Risk management at the KBC Group occurs on a consolidated basis.

With regard to what has been set out above, it should be noted that the composition of the Boards of Directors of the KBC Bank and Insurance Holding Company, KBC Insurance and KBC Bank is largely similar.

The two subsidiaries likewise have audit committees. The chairman of the audit committee of the KBC Bank and Insurance Holding Company presides over both the other audit committees, as well.

### [The management function]

Non-executive directors and members of the Executive Committee perform their management function according to the dual management structure explained at the beginning of this section.

For the rest, the Board has not established any further rules regarding the performance of the management function.

### [Remuneration and shareholdings]

The remuneration of non-executive directors consists exclusively of an attendance fee (determined by the General Meeting) for each meeting of the Board attended and a proportion of the profit share allotted annually to the Board.

Pursuant to the Articles of Association, up to 5% of the dividend paid out may be allotted to the Board by way of profit share. Distribution of this profit share is on the basis of an arrangement established by the Board, the annual allocation being handled by the Remuneration Committee. The Chairman of the Board also receives a fixed monthly emolument.

The KBC Bank and Insurance Holding Company does not grant loans to directors. Such loans may, however, be granted by KBC Bank, in compliance with Article 28 of the Law of 22 March 1993 on the status and supervision of credit institutions, meaning that the loans may be granted at terms applying to customers.

## EXECUTIVE COMMITTEE

The Board constitutes an Executive Committee from among its members that is responsible for managing the KBC Bank and Insurance Holding Company in line with the general strategy set by the Board. The names of the members of the Executive Committee and the date on which their term of office comes to an end are given in the previous table.

The financial remuneration of the members of the Executive Committee (including the supplementary pension scheme) are determined by the Board, on the proposal of the Remuneration Committee. For this purpose, a regular comparison is made with remuneration levels prevailing in the market. The members of the Executive Committee are remunerated by means of a fixed monthly emolument, a variable annual emolument (the amount of which depends on the consolidated profit of the holding company) and options on KBC Bank and Insurance Holding Company shares (this depends on a minimum annual increase in earnings per share being achieved, and allotment is also progressive on this basis). They also participate in the stock option plans organized for KBC staff. Moreover, the President and Vice-President receive a number of additional stock options each year, based on the consolidated profit of the holding company. An income ceiling applies to the aggregated (fixed and variable) emoluments paid annually to each member of the Executive Committee. The emoluments they receive for the offices they hold in other companies are set off against the above-mentioned remuneration. The total remuneration (fixed and variable emoluments) paid to members of the Executive Committee in 2002 is shown in the 'Remuneration and shareholdings in 2002' table. In 2002, a total of 27 600 free stock options, with an exercise price of 41.18 euros and a life of seven years, were allotted to members of the Executive Committee.

The supplementary pension scheme comprises a supplementary retirement pension or – if the insured dies and leaves a spouse – a survivor's pension. The annuity payable under the sup-

### COMPOSITION AND ACTIVITIES OF THE EXECUTIVE COMMITTEE

| | |
|---|---|
| Members | Eight (on 31 December 2002), comprising the members of the ECs of both KBC Bank and KBC Insurance. |
| Age limit | 65 |
| Appointments | The President, the Vice-President and the members of the EC are appointed by the Board and, by virtue of their appointment, become managing directors. |
| Meetings | One a week, but additional meetings are held whenever the interests of the company demand. |
| Resolutions | The EC acts collectively. It may divide its duties up amongst its members, but this does not detract from their collective responsibility. Resolutions are passed by consensus. |

### REMUNERATION AND SHAREHOLDINGS IN 2002

| | |
|---|---|
| Non-executive directors | 1 715 436.07 EUR (gross, before tax) |
| Members of the Executive Committee (EC)* | 4 835 881.73 EUR (gross, before tax), 1 690 598.08 EUR of which as a variable emolument |
| KBC shares held by members of the Board | 32 655 KBC Bank and Insurance Holding Company shares (15 075 of which held by EC members)<br>64 MCBs (2003) (29 of which held by EC members)<br>615 MCBs (2008) (580 of which held by EC members)<br>95 850 options on KBC Bank and Insurance Holding Company shares (82 350 of which held by EC members) |

* Remuneration paid to the current members of the EC and the three members who stepped down on 25 April 2002.



plementary retirement pension amounts to a maximum 39-45% of the annual income ceiling, depending on whether the beneficiary is an ordinary member, the Vice-President or the President of the Executive Committee. The survivor's pension is equal to a maximum of 50% of this figure.

Remuneration of the members of the Executive Committee is charged to KBC Bank or KBC Insurance, depending on which Executive Committee the individual in question belongs to.

## COMMITTEES SET UP BY THE BOARD OF DIRECTORS

To carry out the preparatory work for the activities of the Board and to support it in carrying out its duties, three *ad hoc* committees have been established within it, the composition of which is set out in the table below.

Detailed description of the Audit Committee's responsibilities:

- to approve the annual audit plan of the internal auditor, take cognizance of the external auditor's audit plan and discuss their reports;
- to discuss the reports of the Risk Management Division, with briefings focusing on recent developments in market risk monitoring;
- to review the drafts of the annual accounts and of the press releases on the quarterly results, prior to their submission to the Board;
- to subject to scrutiny any matter that falls within its competence and to that end requisition all relevant information. In 2002, the Audit Committee reviewed special reports on the following topics, among others: risk management at various subsidiaries in Belgium and abroad, the activities of the Compliance Division, the Internal Audit Charter, the Compliance Charter, risk governance of market risks and compliance with circulars issued by the supervisory authorities.

Furthermore, it may consult external experts if a reasoned request to that end is submitted by its chairman and approved by the Board.

## PROFIT APPROPRIATION POLICY

It is the intention of the Board to propose to the General Meeting of Shareholders that approximately 40-45% of the consolidated profit for the year be paid out in the form of dividends. Barring exceptional circumstances, this policy will continue to be adhered to in the future. Should the profit for the year experience a decline, which the Board deems to be temporary in nature, then the payout ratio may be increased to ensure that the dividend remains relatively stable.

## RELATIONS WITH THE PRINCIPAL SHAREHOLDERS

On 31 December 2002, Almanij NV (with registered office at Schoenmarkt 33, Antwerp) held a controlling participation in the KBC Bank and Insurance Holding Company of 68.05%.

A shareholder agreement was concluded in December 1999 between Cera Holding and the other permanent shareholders of Almanij. The purpose of this agreement is to support and co-ordinate Almanij's general policy and to supervise its implementation. By the terms of the agreement, the voting rights linked to the shares allocated to each party under the shareholder agreement are to be exercised collectively and reciprocal pre-emptive rights have been granted with respect to these shares.

In addition, the co-operative *Maatschappij voor Roerend Bezit van de Belgische Boerenbond*, or MRBB, acts as stable shareholder for the Almanij Group.

The Group Policy Committee is responsible for deliberating on and co-ordinating the policy of the Almanij Group, for encouraging co-operation amongst the subsidiaries, and it also acts as a think-tank for new ideas and initiatives. In principle, the committee meets twice a year.

### COMMITTEES SET UP BY THE BOARD OF DIRECTORS

| | |
|---|---|
| **Agenda Committee** | |
| Members | Six, comprising the Chairman of the Board, the President and Vice-President of the Executive Committee and three non-executive directors. |
| Responsibilities | Prepares the agenda and the matters for deliberation by the Board. Acts as an appointments committee, formulating proposals regarding the appointment of directors. |
| Meetings | Prior to each Board meeting, at least. |
| **Audit Committee** | |
| Members | Nine non-executive directors, three of whom are independent directors[1]. |
| Responsibilities | Assists the Board in the performance of its supervisory task. Its remit is to ensure compliance with legal and regulatory requirements, with policy guidelines and procedures approved by the Board, and to supervise risk and internal control. A more detailed description appears above. |
| Meetings | Five a year, in the presence of the President of the Executive Committee, the internal auditor, the officers of the control and accounting divisions of KBC Bank and KBC Insurance[2]. After each meeting, the committee submits a report on its work to the Board. |
| **Remuneration Committee** | |
| Members | Three, comprising one independent director and two representatives of the principal shareholders. |
| Responsibilities | Determines, within the bounds of the authority delegated by the Board, the remuneration of the members of the Executive Committee and prepares the decisions concerning the profit share awarded under the Articles of Association to the members of the Board. |
| Meetings | *Ad hoc.* The committee submits a report on its work annually to the Board. |

1 The fact that these last do not constitute a majority, as recommended by Euronext Brussels is due to the desire to have the composition of this committee reflect that of the Board and largely correspond to that of the audit committees of KBC Insurance and KBC Bank.

2 A number of its meetings, including those convened to discuss the publication of the results and the financial situation, are also attended by the statutory auditor.

KBC is not aware of the existence of any shareholder or management committees other than the above.

Commercial transactions between KBC and Almanij do not take place at the level of the KBC Bank and Insurance Holding Company, but at the level of the operating companies, principally KBC Bank, based on 'arm's length' principles and objective evaluations carried out by the competent division or committee. These transactions are supervised by the management bodies of the operating companies concerned.

## APPOINTMENTS

On 24 April 2003, Mr. Remi Vermeiren will step down as President and member of the Executive Committee of KBC Bank and the KBC Bank and Insurance Holding Company, and as director. The respective Boards of Directors would like to express their gratitude for his efforts on the company's behalf, in particular his contribution towards the establishment and expansion of the KBC Bank & Insurance Group and the implementation of its international strategy, especially in Central Europe.

On 21 November 2002, the above-mentioned Boards of Directors decided to appoint Mr. Willy Duron to replace Mr. Vermeiren as President of the Executive Committee of the KBC Bank and Insurance Holding Company and to nominate Mr. André Bergen as member of the Board of KBC Bank and the KBC Bank and Insurance Holding Company with a view to his appointment as President of the Executive Committee of KBC Bank and Vice-President of the Executive Committee of the KBC Bank and Insurance Holding Company. Consequently, it is proposed that the General Meeting appoint Mr. Bergen as director for a period lasting until the Annual General Meeting in 2007, the date his predecessor's term of office, which he is completing, comes to an end.

On 6 February 2003, the Boards of Directors of KBC Bank and the KBC Bank and Insurance Holding Company decided to nominate Mr. Guido Segers at the General Meeting of Shareholders of 23 and 24 April 2003, as a member of the above-mentioned Boards of Directors for a period of six years pursuant to the Articles of Association, with a view to his appointment as a member of the Executive Committees of KBC Bank and the KBC Bank and Insurance Holding Company. Mr. Segers will replace Mr. Luc Philips on these Committees. Mr. Philips is stepping down because of his nomination by the Board of Directors of Almanij as managing director and member of the Executive Committee of that company. The Board would like to thank him for the valuable contribution he made – as a member of both Executive Committees – to the success of the merger within KBC Bank and to the activities of the KBC Bank and Insurance Holding Company, and looks forward to working with him in the future as a director.

On 27 June 2002, Mr. Paul Tanghe retired as director. The Board would like to thank him for the valuable contribution he made both as a director and as a member of the various committees in the years immediately after the creation of the KBC Bank & Insurance Group. Mr. Tanghe has been awarded the title of honorary director. With a view to his replacement, the Board has temporarily appointed Mr. Germain Vantieghem as director. It is proposed that the General Meeting appoint him definitively to complete the term of office of his predecessor, which is due to expire at the Annual General Meeting in 2004.

At the Annual General Meeting of Shareholders in 2003, the term of office of Mr. Jan Vanhevel will also come to an end. It is proposed that the General Meeting re-appoint him for a further

## BOARD OF DIRECTORS OF KBC BANK AND OF KBC INSURANCE

| Board of Directors of KBC Bank (31-12-2002) | Executive Committee | Audit Committee |
|---|---|---|
| Willy Breesch (Chairman of the Board) | | ▮ |
| Jan Huyghebaert (Vice-Chairman of the Board) | | ▮ |
| Remi Vermeiren (President of the Executive Committee) | ▮ | |
| Herman Agneessens | ▮ | |
| Rik Donckels | | |
| Frans Florquin | ▮ | |
| Eric Mertens | | |
| Luc Philips | ▮ | |
| Hubert Plouvier | | |
| Jan Vanhevel | ▮ | |
| Herman Van Thillo | | |
| Germain Vantieghem | | ▮ |
| Ferdinand Verdonck | | ▮ |
| Marc Wittemans | | ▮ |

Secretary to the Board of Directors and the Executive Committee: Jos Aerts.
Auditor: Ernst & Young Bedrijfsrevisoren BCV, represented by Jean-Pierre Romont and Danielle Vermaelen.

| Board of Directors of KBC Insurance (31-12-2002) | Executive Committee | Audit Committee |
|---|---|---|
| Alfons Wouters (Chairman of the Board) | | ▮ |
| Willy Duron (President of the Executive Committee) | ▮ | |
| Emile Celis | ▮ | |
| Ann Collin | | |
| Christian Defrancq | ▮ | |
| Noël Devisch | | |
| Rik Donckels | | |
| Carla Durlet | | |
| Jan Huyghebaert | | |
| Harold Vanden Avenne | | ▮ |
| Germain Vantieghem | | ▮ |
| Ferdinand Verdonck | | ▮ |

Secretary to the Board of Directors and the Executive Committee: Dirk Verdonckt.
Auditor: Ernst & Young Bedrijfsrevisoren BCV, represented by Jean-Pierre Romont and Jan De Landsheer.



period of six years, pursuant to the Articles of Association.

Mr. Thomas Leysen has expressed the desire to step down as director at the Annual General Meeting of 2003. The Board would like to thank him for the competent way in which he has performed the duties of his office. The Board proposes that Mr. Dirk Wauters be appointed to complete his term of office, which runs until the Annual General Meeting of 2008.
Lastly, the Board proposes that Mr. Frank Donck be appointed director to complete the term of office of the late Mr. John Goossens, which runs until the Annual General Meeting of 2007.

## KBC STOCK OPTION PLAN – CONFLICT OF INTERESTS

At the Board meeting of 25 April 2002, the authority granted to the *ad hoc* committee by the Board on 27 March 2000 was renewed, so that additional options could be allocated to members of staff of the KBC Group. In view of the fact that these options can be allocated not only to the staff of the KBC Group, but also to the Chairman of the Board and the members of the Executive Committee, this resolution was passed in compliance with Article 523 of the Companies Code. The minutes of the above-mentioned Board meeting, where they relate to the aforementioned authorization, are given in detail below.

'4. Options on KBC Bank and Insurance Holding Company shares – renewal of the authority granted by the Board of Directors to its *ad hoc* committee on 27 March 2000 to allot additional options to members of staff of the KBC Group, and this for a period of ten years starting today, with no limit on the number of options to be issued – delegation of responsibility for approving the prospectus. The meeting takes note of the fact that the managing directors, as well as Mr. Willy Breesch, Chairman of the Board of Directors of the company, have announced that they have a direct conflicting interest under property law with regard to the following agenda items. The directors in question declare that the conflicting interest they have under property law arises from their eligibility to participate in option plans under the renewed additional authority. Nevertheless, they all share the view that option plans under the renewed additional authority are in the interests of the company and of the entire KBC Group, since they are designed to enhance the commitment of the directors who are active in the company and in the KBC Group on a full-time basis, of the Chairman of the Board of Directors of the company and of the personnel of the KBC Group, as well as their involvement in the affairs of the KBC Group. The directors in question likewise declare that they have informed the auditors of the company of their interest. The Chairman of the Board of Directors asks the secretary to record the declaration of the directors in question and the justification provided in the minutes of this meeting of the Board of Directors.
The directors in question then leave the meeting during the deliberations and the vote on the resolutions relating to the granting of additional authority. The Vice-Chairman of the Board, Mr. Jan Huyghebaert, chairs the meeting for the agenda item with respect to which the directors in question have indicated that they have a conflict of interests.
The Board of Directors is of the opinion that the renewal of additional authority to allot options to members of staff is in the interests of the company and of the entire KBC Group, since it will enhance the commitment of the directors who are active in the company and in the KBC Group on a full-time basis, of the Chairman of the Board of Directors of the company and of the personnel of the Group, as well as their involvement in the affairs of the KBC Group. Moreover, any involvement on the part of certain directors in issuing options under the renewed additional authority will have only a limited impact on the financial position of the company and of the KBC Group. The impact on the company's financial position resulting from allotment of options to the managing directors and Mr. W. Breesch will be that the company will buy back a number of its own shares, equal to the number of options that will be allotted to the aforementioned directors, without the company being able to realize any gains on the exercise price on their transfer, while the company will run the risk of an impairment in the value of the shares repurchased if the options are not exercised by the directors in question.

The Board of Directors then unanimously passes the following resolutions.
1) The *ad hoc* committee set up by the Board of Directors is authorized during a period of ten years starting today, when and insofar as it deems necessary, to allot and issue (whether via a sale to the Group companies or not) to one or more members of staff of the KBC Group (such as personnel, independent agents operating via a company or otherwise and managing directors; though not including non-executive directors, apart from the Chairman of the Board of Directors) an unlimited number of options, each entitling the holder to one existing ordinary KBC Bank and Insurance Holding Company share (without attached VVPR strip), provided that the terms and conditions governing the options are consistent with the guidelines set out by the Board of Directors in its resolution of 27 March 2000 (see the minutes of the meeting of the Board of Directors on 27 March 2000, first resolution, third paragraph), unless exceptions are required or advisable for reasons that have to do with (in the event, foreign) legislation or regulation, or with remarks made by Belgian or, as the case may be, foreign authorities, or if required for practical reasons to enable the options in question to be issued. The *ad hoc* committee is authorized to determine on a unilateral basis and at its discretion which members of staff options are to be allotted to under this authorization. Subsequently, in taking the decision regarding the number of options that will be allotted to the members of staff indicated by the *ad hoc* committee, the *ad hoc* committee must take account of one or more (as it chooses) of the following, binding criteria: the level of the beneficiary's function; his/her staff category; the degree of responsibility his/her job entails; the level of the beneficiary's income; whether the beneficiary works on a full- or part-time basis; the importance of the beneficiary to the KBC Group or the KBC Group company he/she works for and the performance appraisal of the beneficiary by the KBC Group company for which he/she works either directly or indirectly. In addition, the committee may lay down subordinate criteria which may not, however, have a decisive impact in determining how many options are ultimately allotted. The *ad hoc* committee is entrusted with responsibility for working out the details (and implementing) and finalizing the option plans concluded under the renewed additional authority, including the regulations. The *ad hoc* committee may further delegate these responsibilities (on the understanding that authority may not be delegated to a managing director of the company or to Mr. W. Breesch). This delegation of authority does not detract from the powers of the Board of Directors to take the above-mentioned decisions itself, although in that case it must inform the *ad hoc* committee thereof immediately.

2) The Board of Directors also resolves to entrust the Executive Committee of the company with responsibility for approving a prospectus, if one is required to be drawn up for an option plan set up under the renewed additional authority.'

## PROSPECTS FOR THE KBC BANK AND INSURANCE HOLDING COMPANY

Please see the 'Group results' section, more particularly the passage entitled 'Profit outlook'.

INE GHEKIERE
Staff Coaching Adviser – Personnel Department
KBC Insurance

***'Our colleagues are self-reliant and don't have to justify themselves every step of the way – that makes for an entrepreneurial spirit.'***

*A Chinese proverb says, ‘If you can’t smile, you shouldn’t run a business’, and as a leading financial-services provider, we at KBC know only too well that optimism is the driving force behind the economy. Indeed, wherever pessimism strikes, confidence will falter, lending will slip and stock prices will fall.*

*The conditions under which KBC had to operate last year were grim, to say the least. Nevertheless, our optimism never wavered, and this was not merely wilful blindness on our part. On the contrary, our optimism was based on a rock-solid foundation – the pride we have in our company and the values it adheres to: customer-friendliness, efficiency, an enterprising spirit and a capacity for innovation. We are utterly convinced that the activities KBC pursues, the projects it is involved in, and the relationships it is forging around the world, are making a positive contribution to economic prosperity and ultimately to the welfare of countless people.*

*Moreover, this conviction is shared by KBC employees. Behind all the dry figures, graphs and charts of this annual report are thousands of employees who, in KBC, have found an employer who has given them a satisfying, challenging job and a stable source of income. Wanting to put a face to this success, we asked some thirty colleagues why they are proud to be working for KBC and what makes them optimistic about the future. All the people interviewed were colleagues who, in 2002, shared in the company’s ups and downs in one way or another. The statements printed in this report are made by ‘real’ people, people with experience, people who know what they are talking about.*

HENK VANWALLEGHEM
Co-ordinator, Portfolio Monitoring – Vlaanderen Area
KBC Insurance

*'KBC is there for all its customers; to serve their needs. We're not afraid of change – flexibility is the name of the game.'*

# CONSOLIDATED ANNUAL ACCOUNTS KBC BANK AND INSURANCE HOLDING COMPANY NV

## CONSOLIDATED BALANCE SHEET AFTER PROFIT APPROPRIATION

**ASSETS**

| (In thousands of EUR) | Note | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|---|
| BANKING | 1 | 176 899 008 | 215 880 978 | 208 501 227 | -3.4% |
| I Loans and advances to credit institutions | 2; 4 | 21 860 314 | 28 291 266 | 29 298 616 | 3.6% |
| II Loans and advances to customers | 3; 4 | 78 936 173 | 87 046 937 | 98 775 117 | 13.5% |
| III Securities | 5 | 58 174 781 | 66 224 733 | 61 895 263 | -6.5% |
| A Fixed-income | | 51 841 558 | 60 525 434 | 57 214 470 | -5.5% |
| B Variable-yield | | 6 333 222 | 5 699 299 | 4 680 793 | -17.9% |
| IV Financial fixed assets | 6 | 616 387 | 193 817 | 686 385 | 254.1% |
| V Intangible fixed assets and goodwill on consolidation | 7 | 165 373 | 207 322 | 542 580 | 161.7% |
| VI Tangible fixed assets | 7 | 1 801 033 | 2 091 340 | 2 147 372 | 2.7% |
| VII Other assets | 7 | 15 344 948 | 31 825 563 | 15 155 894 | -52.4% |
| INSURANCE | | 11 496 544 | 12 583 847 | 14 124 091 | 12.2% |
| VIII Intangible fixed assets and goodwill on consolidation | 9 | 81 487 | 82 344 | 100 894 | 22.5% |
| IX Investments | 8 | 8 266 818 | 8 657 609 | 10 063 997 | 16.2% |
| X Investments for the benefit of life assurance policyholders who bear the investment risk | 8 | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| XI Technical provisions, reinsurers' share | 19 | 178 078 | 173 889 | 250 066 | 43.8% |
| XII Debtors | 9 | 307 915 | 335 332 | 478 166 | 42.6% |
| XIII Other assets | 9 | 376 278 | 382 565 | 417 776 | 9.2% |
| HOLDING-COMPANY ACTIVITIES | 10 | 475 118 | 626 596 | 802 673 | 28.1% |
| XV Financial fixed assets | | 296 466 | 336 955 | 341 313 | 1.3% |
| XVI Investments and cash at bank and in hand | | 135 265 | 246 132 | 445 458 | 81.0% |
| XVII Other assets | | 43 386 | 43 509 | 15 903 | -63.4% |
| ELIMINATIONS* | 22 | -1 212 687 | -1 014 818 | -1 697 451 | 67.3% |
| **TOTAL ASSETS** | | **187 657 982** | **228 076 604** | **221 730 540** | **-2.8%** |

* The amounts eliminated on the assets side do not match amounts eliminated on the liabilities side, due to direct elimination under the subordinated liabilities heading.



**LIABILITIES**

| (In thousands of EUR) | Note | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|---|
| CAPITAL RESOURCES | | | | | |
| I Capital | 11 | 585 377 | 590 388 | 591 138 | 0.1% |
| II Share premium account | 11 | 1 961 818 | 2 009 421 | 2 018 180 | 0.4% |
| III Revaluation reserve | 11 | 10 630 | 10 162 | 9 702 | -4.5% |
| IV Reserves | 11 | 4 470 521 | 6 871 067 | 7 355 959 | 7.1% |
| V Negative goodwill on consolidation | 11 | 18 219 | 15 934 | 16 611 | 4.2% |
| Vbis Imputed goodwill on consolidation | 11 | -1 256 299 | -1 617 451 | -1 519 707 | -6.0% |
| VI Translation differences | 11 | -14 725 | -27 240 | -42 951 | 57.7% |
| Total capital and reserves | 11 | 5 775 542 | 7 852 280 | 8 428 932 | 7.3% |
| VIII Minority interests (including preference shares) | 12 | 1 892 119 | 2 219 123 | 1 967 094 | -11.4% |
| IX Subordinated liabilities | 13 | 6 707 905 | 6 745 978 | 6 285 850 | -6.8% |
| X Fund for General Banking Risks | 14 | 1 841 379 | 0 | 0 | - |
| Total capital resources | | 16 216 944 | 16 817 380 | 16 681 876 | -0.8% |
| BANKING | | 160 408 100 | 199 144 753 | 192 297 185 | -3.4% |
| XI Amounts owed to credit institutions | 15 | 41 961 726 | 41 199 589 | 39 683 320 | -3.7% |
| XII Amounts owed to customers | 16 | 82 209 413 | 110 097 895 | 113 719 463 | 3.3% |
| XIII Debts represented by securities | 16 | 24 966 660 | 21 044 512 | 23 655 798 | 12.4% |
| XIV Provisions and deferred taxes | 17 | 965 280 | 668 243 | 724 452 | 8.4% |
| XV Other liabilities | 18 | 10 305 021 | 26 134 514 | 14 514 152 | -44.5% |
| INSURANCE | | 10 094 907 | 11 047 212 | 12 251 604 | 10.9% |
| XVI Technical provisions | 19 | 7 101 813 | 7 366 963 | 8 860 576 | 20.3% |
| XVII Technical provisions for life assurance policies where the investment risk is borne by the policyholders | 19 | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| XVIII Deposits received from reinsurers | | 102 353 | 98 136 | 96 535 | -1.6% |
| XIX Provisions and deferred taxes | 17 | 259 285 | 263 316 | 44 488 | -83.1% |
| XX Other liabilities | 20 | 345 487 | 366 689 | 436 814 | 19.1% |
| HOLDING-COMPANY ACTIVITIES | 21 | 1 835 079 | 1 730 987 | 1 842 874 | 6.5% |
| XXI Financial liabilities | | 1 331 538 | 1 208 715 | 1 316 899 | 9.0% |
| XXII Provisions and deferred taxes | | 0 | 0 | 2 189 | - |
| XXIII Other liabilities | | 503 541 | 522 272 | 523 786 | 0.3% |
| ELIMINATIONS* | 22 | -897 048 | -663 728 | -1 343 000 | 102.3% |
| **TOTAL LIABILITIES** | | **187 657 982** | **228 076 604** | **221 730 540** | **-2.8%** |

* The amounts eliminated on the assets side do not match amounts eliminated on the liabilities side, due to direct elimination under the subordinated liabilities heading.

ANN LINSSEN
Customer Adviser
KBC Sterrebeek

*'KBC is still an independent bank and it thinks ahead. For example, it focuses a lot of attention on its young customers.'*

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

### PROFIT AND LOSS ACCOUNT

| | (In thousands of EUR) | Note | 31-12-2000* | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|---|---|
| **BANKING** | | | | | | |
| A | Net interest income | 23; 28 | 2 294 976 | 2 541 177 | 3 046 115 | 19.9% |
| | 1 Interest receivable and similar income | | 10 066 214 | 11 543 950 | 9 501 009 | -17.7% |
| | 2 Interest payable and similar charges | | -7 771 238 | -9 002 774 | -6 454 894 | -28.3% |
| B | Income from variable-yield securities | 24; 28 | 142 285 | 120 775 | 157 758 | 30.6% |
| | 1 From shares and other variable-yield securities | | 115 114 | 101 564 | 133 287 | 31.2% |
| | 2 From participating interests and shares constituting financial fixed assets | | 27 172 | 19 211 | 24 470 | 27.4% |
| C | Profit (Loss) on financial transactions | 25; 28 | 835 851 | 884 770 | 1 013 571 | 14.6% |
| | 1 On the trading of securities and other financial instruments | | 590 101 | 609 557 | 615 140 | 0.9% |
| | 2 On the disposal of investment securities | | 245 751 | 275 213 | 398 432 | 44.8% |
| D | Net commission and other operating income | 26; 28 | 1 335 973 | 1 427 645 | 1 530 845 | 7.2% |
| | 1 Net commission income | | 1 034 354 | 1 056 811 | 1 090 588 | 3.2% |
| | 2 Other operating income | | 301 619 | 370 834 | 440 256 | 18.7% |
| E | Results from participating interests accounted for using the equity method | 27; 28 | 47 195 | 2 907 | 7 411 | 155.0% |
| F | General administrative expenses and other charges | 29 | -3 094 309 | -3 510 048 | -3 750 667 | 6.9% |
| | 1 Staff charges | | -1 675 340 | -1 842 934 | -1 982 473 | 7.6% |
| | 2 Depreciation on fixed assets | | -295 927 | -357 528 | -419 456 | 17.3% |
| | 3 Other operating charges | | -1 123 042 | -1 309 586 | -1 348 738 | 3.0% |
| G | Write-downs on and provisions for credit risks | 30 | -241 281 | -321 383 | -465 298 | 44.8% |
| H | Transfer to, transfer from the contingency funds | | -15 772 | 0 | 0 | - |
| I | Value adjustments on securities | 31 | -82 321 | -88 690 | -202 142 | 127.9% |
| J | Provisions for other liabilities and charges | 17 | 15 075 | 42 640 | 4 425 | -89.6% |
| K | Amortization of goodwill on consolidation | | -9 193 | -8 706 | -17 840 | 104.9% |
| **I** | **Profit (Loss) on ordinary activities, banking** | | **1 228 480** | **1 091 087** | **1 324 176** | **21.4%** |
| **INSURANCE** | | **32** | | | | |
| A | Earned premiums, net of reinsurance | | 2 650 473 | 2 508 461 | 3 155 934 | 25.8% |
| | 1 Gross premiums earned | | 2 704 723 | 2 570 387 | 3 244 829 | 26.2% |
| | 2 Reinsurers' share | | -54 250 | -61 925 | -88 896 | 43.6% |
| B | Net technical charges | | -2 334 841 | -1 960 899 | -2 273 978 | 16.0% |
| | Value adjustments, unit-linked life assurance | | 182 489 | 369 280 | 679 777 | 84.1% |
| C | Investment income and charges | | 420 802 | 256 753 | -33 180 | - |
| | Realized gains and losses | | 161 194 | 183 549 | 197 971 | 7.9% |
| | Value adjustments, unit-linked life assurance | | -182 489 | -369 280 | -679 777 | 84.1% |



**PROFIT AND LOSS ACCOUNT**

| | (In thousands of EUR) | Note | 31-12-2000* | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|---|---|
| D | Results from participating interests accounted for using the equity method | | 11 460 | 4 978 | 3 543 | -28.8% |
| E | General administrative expenses and other charges | | -374 287 | -406 965 | -456 540 | 12.2% |
| F | Amortization of goodwill on consolidation | | -1 724 | -1 724 | -2 669 | 54.8% |
| Recurring result from ordinary activities | | | 371 883 | 400 604 | 393 110 | -1.9% |
| G | Non-recurring income | | 144 733 | 37 165 | 314 628 | 746.6% |
| H | Non-recurring charges | | -119 446 | -29 377 | -305 146 | 938.7% |
| **II** | **Profit (Loss) on ordinary activities, insurance** | | **397 169** | **408 392** | **402 593** | **-1.4%** |
| **HOLDING-COMPANY ACTIVITIES** | | **33** | | | | |
| A | Net interest income | | -35 652 | -34 109 | -26 439 | -22.5% |
| B | Income from variable-yield securities | | 0 | 0 | 5 011 | - |
| C | Results from participating interests accounted for using the equity method | | 545 | 0 | 0 | - |
| D | Other operating income | | 2 151 | 4 883 | 6 101 | 24.9% |
| E | General administrative expenses and other charges | | -3 597 | -3 790 | -4 473 | 18.0% |
| **III** | **Profit (Loss) on ordinary activities, holding-company activities** | | **-36 553** | **-33 016** | **-19 800** | **-40.0%** |
| **IV** | **Extraordinary income** | **34** | **745 887** | **113 544** | **50 951** | **-55.1%** |
| **V** | **Extraordinary charges** | **34** | **-46 981** | **-35 808** | **-46 798** | **30.7%** |
| **VI** | **Profit for the financial year, before tax** | | **2 288 004** | **1 544 199** | **1 711 122** | **10.8%** |
| **VII** | A Transfer from deferred taxes | 35 | 5 792 | 731 | 22 556 | - |
| | B Transfer to deferred taxes | 35 | -1 050 | -643 | -15 818 | - |
| **VIII** | **Income taxes** | **35** | **-316 236** | **-365 859** | **-517 836** | **41.5%** |
| | A Income taxes | | -335 297 | -380 495 | -535 111 | 40.6% |
| | B Adjustments to income taxes and amounts written back from tax provisions | | 19 061 | 14 636 | 17 275 | 18.0% |
| **IX** | **Consolidated profit** | | **1 976 509** | **1 178 428** | **1 200 024** | **1.8%** |
| | A Minority interests | | 155 829 | 156 076 | 165 820 | 6.2% |
| | B Profit attributable to the Group | | 1 820 680 | 1 022 352 | 1 034 204 | 1.2% |

* Including the capital gain realized on the sale of the participation in CCF.

# BASIS OF CONSOLIDATION AND VALUATION RULES: GENERAL PRINCIPLES

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

### 1 Full and proportional consolidation

The method of full consolidation is applied for all subsidiaries and sub-subsidiaries over which the consolidating company exercises exclusive control *de jure* (participating interests of more than 50%) or *de facto*.

Companies over which joint control is exercised, *de jure or de facto*, together with a limited number of partners, are consolidated according to the method of proportional consolidation.

### 2 Equity method

This method is applied for associated companies over whose management policy the Group exercises considerable control. This method is also applied for companies in liquidation.

### 3 Valuation at acquisition cost

Participating interests in non-associated companies are included in the consolidated annual accounts at acquisition cost (less any amounts written down).

### 4 Cases where these criteria have been departed from

Companies qualifying for consolidation are also effectively included in the consolidated annual accounts if two of the following criteria are met:

- if the Group share in capital and reserves exceeds 1.25 million euros;
- if the Group share in the results exceeds 0.5 million euros (in absolute terms);
- if the total assets and the off-balance-sheet rights and commitments that can be taken into account for the purpose of calculating the CAD ratio exceed 6.25 million euros.

The aggregated total assets of the companies excluded from consolidation may not exceed the lower of the following amounts: 1% of the consolidated total assets or 1 billion euros. If a company which used to be consolidated no longer meets the stated criteria, it will in principle continue to be included in the consolidation, unless the situation is permanent.

The associated companies which issue real estate certificates are not consolidated, as the economic risk attaching to the assets of these companies is borne by the holders of the certificates.

### 5 Main companies included in the consolidation

Shown at the right is a brief overview of the main companies included in the consolidation. The complete list is contained in the annual accounts that have been filed with the National Bank of Belgium (NBB) and is also available on request.

## MAIN COMPANIES INCLUDED IN THE CONSOLIDATION

| Company | Registered office | Percentage, interest |
|---|---|---|
| A FULLY CONSOLIDATED | | |
| Banking | | |
| Antwerpse Diamantbank NV | Antwerp – BE | 100.00 |
| Assurisk SA | Luxembourg – LU | 100.00 |
| CBC Banque SA | Brussels – BE | 100.00 |
| Centea NV | Antwerp – BE | 99.56 |
| Krefima NV | Antwerp – BE | 99.48 |
| Československá Obchodní Banka a.s. (ČSOB) | Prague – CZ | 84.05 |
| Fin-Force NV | Brussels – BE | 90.00 |
| IIB Bank Limited (Group) | Dublin – IE | 100.00 |
| Investco NV | Brussels – BE | 100.00 |
| KBC Asset Management NV | Brussels – BE | 100.00 |
| KBC Asset Management Limited | Dublin – IE | 100.00 |
| KBC Bank NV | Brussels – BE | 100.00 |
| KBC Bank Deutschland AG | Bremen – DE | 99.68 |
| KBC Bank Funding LLC & Trust (Group) | New York – US | 100.00 |
| KBC Bank Nederland NV | Rotterdam – NL | 100.00 |
| KBC Clearing NV | Amsterdam – NL | 94.90 |
| KBC Exploitatie NV | Mechelen – BE | 100.00 |
| KBC Finance Ireland | Dublin – IE | 100.00 |
| KBC Financial Products (Group) | Various locations | 100.00 |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | 100.00 |
| KBC Lease (Group) | Various locations | 100.00 |
| KBC Peel Hunt Plc. | London – GB | 100.00 |
| KBC Securities (Group) | Various locations | 100.00 |
| Kereskedelmi és Hitelbank Rt. (K&H Bank) | Budapest – HU | 59.33 |
| Kredyt Bank SA | Warsaw – PL | 76.46 |
| Patria Finance a.s. | Prague – CZ | 100.00 |
| Insurance | | |
| ADD NV | Heverlee – BE | 100.00 |
| Almarisk NV | Brussels – BE | 100.00 |
| Argosz Insurance Corporation Limited | Budapest – HU | 98.76 |
| ČSOB Poišt'ovna a.s. | Pardubice – CZ | 84.05 |
| ERGO Poist'ovňa a.s. | Bratislava – SK | 69.42 |
| Fidea NV | Antwerp – BE | 100.00 |
| K&H Életbiztositó Rt. (K&H Life) | Budapest – HU | 79.66 |
| KBC Life Fund Management SA | Luxembourg – LU | 100.00 |
| KBC Insurance NV | Leuven – BE | 100.00 |
| Lucare Captive SA | Luxembourg – LU | 99.99 |
| Maatschappij voor Brandherverzekering CV | Leuven – BE | 90.91 |
| Pardubicka Pojišt'ovna a.s. | Zatec – CZ | 100.00 |
| Secura NV | Brussels – BE | 95.04 |
| VITIS Life Luxembourg SA | Luxembourg – LU | 94.32 |
| Holding-company activities | | |
| KBC Bank and Insurance Holding Company NV | Brussels – BE | 100.00 |
| B PROPORTIONALLY CONSOLIDATED | | |
| Banking | | |
| International Factors NV | Brussels – BE | 50.00 |
| C ACCOUNTED FOR USING THE EQUITY METHOD | | |
| Banking | | |
| Bank Card Company NV | Brussels – BE | 21.55 |
| Banksys NV | Brussels – BE | 20.55 |
| Nova Ljubljanska banka d.d. | Ljubljana – SL | 34.00 |
| Insurance | | |
| Agropolisa SA | Warsaw – PL | 87.22 |
| FBD Ltd. | Dublin – IE | 19.30 |
| FBD Holdings Plc. | Dublin – IE | 23.21 |
| VTB-VAB NV Group | Antwerp – BE | 28.26 |
| TUiR Warta SA | Warsaw – PL | 40.03 |



## 6 Changes in the scope of consolidation in 2002

The balance sheet and profit and loss account were affected in the 2002 financial year by changes in the scope of consolidation. The main changes are shown below; the complete list is contained in the annual accounts that have been filed with the NBB and is also available on request.

### CHANGES IN THE SCOPE OF CONSOLIDATION IN 2002

| Company | Consolidation method | Percentage, interest 31-12-2001 | Percentage, interest 31-12-2002 | Effect on results since | Comments |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| **Banking** | | | | | |
| Nova Ljubljanska banka d.d. | equity method | - | 34.00 | 01-10-2002 | |
| **Insurance** | | | | | |
| ČSOB Pojišt'ovna* a.s. | full consolidation | - | 84.05 | 01-01-2002 | |
| ERGO Poist'ovňa a.s. | full consolidation | - | 69.42 | 01-01-2003 | consolidated in the balance sheet at year-end 2002, but not in the profit and loss account |
| **Exclusions** | | | | | |
| **Banking** | | | | | |
| KBC Securities Nederland NV | full consolidation | 100.00 | - | - | sold; included in the results through 30 November 2002 |
| **Changes in percentage interest** | | | | | |
| **Banking** | | | | | |
| Antwerpse Diamantbank NV | full consolidation | 87.17 | 100.00 | 01-01-2002 | |
| Kredyt Bank SA | full consolidation | 54.64 | 76.46 | 01-01-2002 | through the 3rd quarter of 2001, equity method; full consolidation after that |
| KBC Clearing NV | full consolidation | 75.00 | 94.90 | 30-06-2002 | |
| Kereskedelmi és Hitelbank Rt. (K&H Bank) | full consolidation | 59.01 | 59.33 | 01-01-2002 | from 30 June 2001 includes ABN AMRO Magyar Bank Rt. |
| **Insurance** | | | | | |
| Secura NV | full consolidation | 95.04 | 95.04 | 01-10-2001 | on 1 October 2001, increase from 52.51% to 95.04% |

* This is the new name of IPB Pojišt'ovna. The former ČSOB Pojišt'ovna changed its name to Pardubicka Pojišt'ovna. The two are being merged.

Marnix Smets
Programme Manager
ČSOB, Bratislava, Slovakia

*'KBC's employees abroad also have potential to grow in their jobs. You get the feeling that your job is important to the whole.'*

## [Accounting principles and valuation rules: general principles]

### 1 General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the consolidated annual accounts of credit institutions, the Royal Decree of 13 February 1996 on the consolidated annual accounts of insurance and reinsurance companies, and the Royal Decree of 1 September 1986 on holding companies, as amended by the Royal Decree of 25 November 1991 (for the holding-company activities), save however for the divergent presentation.
The KBC Bank and Insurance Holding Company NV is a financial conglomerate by nature and groups the activities of KBC Bank NV, KBC Insurance NV and KBC Asset Management NV. The presentation for holding companies is not suited to giving a true and fair view of the assets and liabilities, the financial position and the results of the KBC Bank and Insurance Holding Company NV.
In drawing up the layout that would be used, a functional approach was opted for, based on a breakdown per area of activity (banking, including asset management, insurance and holding-company activities). This presentation respects the specificity of the different activities and allows for flexibility with regard to the differences in regulations and valuation.
As supervisory authority for listed holding companies, the Belgian Banking and Finance Commission (BFC) gave the KBC Bank and Insurance Holding Company NV the requisite authorization to draw up its consolidated annual accounts using a functional layout that takes into account the mixed activities engaged in by a financial services group.
The consolidated annual accounts are made up as at 31 December, the year-end for the parent company and the vast majority of the consolidated companies. For those companies with a different year-end, interim accounts are drawn up at 31 December for the purpose of consolidation. The consolidated annual accounts are made up after profit appropriation by the KBC Bank and Insurance Holding Company NV. The annual accounts of the other consolidated companies are included before profit appropriation.
In accordance with Article 152 §2 of the Royal Decree of 30 January 2001, the valuation rules of companies accounted for using the equity method are not adjusted to bring them into line with those of the consolidating company.
One exception to this rule is made with regard to FBD Holdings, an associated company of KBC Insurance. Its unrealized gains and losses are eliminated from the results.
The assets and liabilities belonging to one and the same activity are, in principle, valued according to uniform rules. Differences persist between the activities, owing to the specific rules that apply in the sector. These differences have not, however, been harmonized, in view of the specificity of the areas of activity, and they relate primarily to the securities portfolio.
In the profit and loss account, income and expenditure between the various areas of activity (banking, insurance and holding-company activities) and which arise in the course of ordinary activities are not eliminated. The corresponding positions on the balance sheet are, however, adjusted via the 'Eliminations' heading. This accounting treatment provides better insight, in business-economic terms, into the results of each business area. Within the separate areas of activity, the intercompany balances on the balance sheet and the profit and loss account are eliminated, starting from an amount of 2.5 million euros. In Note 22, moreover, an indication is given of the intercompany transactions between the banking, the insurance and the holding-company activities.
Intragroup gains and losses are eliminated commensurate with the percentage share (direct and indirect) held by the consolidating company in each of the subsidiaries concerned. Internal gains and losses of under 0.5 million euros are not eliminated.

### 2 Valuation rules

#### a Currency translation

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date.

**Banking**

Negative and positive valuation differences, except for those relating to the financing of shares and participating interests in foreign currency, are recorded in the profit and loss account.
Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.
Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they are recognized. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

**Insurance**

The balance of the positive and negative differences arising from the translation of the technical provisions denominated in foreign currency are included under the corresponding 'Adjustments to the technical provisions' headings in the profit and loss account. The balances arising from the translation of the technical non-life reinsurance provisions denominated in foreign currency are included under the corresponding 'Other technical charges' heading in the technical account for the non-life business.
The balance of the positive and negative differences arising from the translation of monetary items, other than the technical provisions, denominated in foreign currency, is taken to the profit and loss account as financial income or a financial charge.
However, until 1 January 2002, the positive balance had been recorded under the accruals and deferrals heading as income to be carried forward (with the exception of the positive differences on EMU currencies, which were included in the result for the (financial) year in which those currencies were incorporated into the euro, as they became definitive at that time).
For non-monetary items whose acquisition cost is expressed in foreign currency, the equivalent in euros at which these items are posted to the annual accounts is calculated on the basis of the exchange rate prevailing at the end of the month preceding the acquisition of the non-monetary items.
Charges and income expressed in foreign currency are translated quarterly and included in the profit and loss account at the spot rate prevailing at the end of the quarter.

**Holding-company activities**

The negative translation differences are taken into account via the 'Unrealized exchange differences' heading in the profit and loss account. The positive translation differences are included in the balance sheet under the 'Accrued charges and deferred income' heading, with the exception of the positive differences on EMU currencies, which were included in the result for the (financial) year in which those currencies were incorporated into the euro, as they became definitive at that time.

#### b Translation of the financial statements of foreign subsidiaries

The balance sheets of foreign subsidiaries are translated into euros at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The profit and loss account is translated at the average rate for the financial year. Differences arising because the exchange rate used for assets and liabilities items

differs from that used for items constituting capital and reserves are included (together with the exchange rate differences on loans concluded to finance participating interests in foreign currency), in the amount of the Group's share, under the liabilities heading, 'Translation differences'.
The cumulative translation differences stemming from the translation of financial statements expressed in an EMU currency for the period up to the currency's incorporation into the euro will remain under this heading.
Translation differences are taken to the profit and loss account upon the transfer in whole or in part of the participating interest.

## c Amounts receivable

### Banking

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to the results immediately on the inception of the loans and advances concerned, credit insurance premiums are written to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are included in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.
Amounts receivable arising from advances or cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognized on an accruals basis and according to the straight-line method as interest receivable via the accruals and deferrals accounts.
Long-term credit, consumer credit and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings. The other amounts receivable are recognized in the balance sheet at nominal value.
Loans and advances that are transferred through securitization operations where the transfer qualifies as a sale under BFC guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. During the term of the securitization operation, the entry in the contingent accounts is required to be adjusted at the end of each month in accordance with customers' loan repayments.
Any gains realized on the sale of securitized assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognized in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
For foreign loans, additional non-specific provisions are posted, calculated on the basis of simple percentages.
For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves. Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.
The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to 'Net interest income' on an accruals basis.
For country risks, provisions are established that meet the relevant provisioning requirements imposed by the BFC. In addition, the bank sets aside additional funds which it considers necessary for the management of country risks. These are risks in respect of countries or groups of countries whose economic, financial, legal or political situation warrants the setting aside of provisions on prudential grounds.
From the 2000 financial year, amounts provisioned for country risks will be broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate. The overall provision for country risks used to be recorded as an adjusting entry under the 'Loans and advances to credit institutions' heading.

### Insurance

Amounts receivable (debtors) are recorded in the balance sheet at nominal value. Interest earned but not yet due, the difference between acquisition cost and nominal value, and the discount on amounts receivable which bear an exceptionally low rate of interest or no interest at all are recorded under the 'Deferred charges and accrued income' heading and released to the profit and loss account *pro rata temporis* on the basis of the compound interest.
If, at the close of the financial year, the realization value of a receivable is lower than its carrying value, and if this impairment in value can be considered real and lasting in nature, a write-down is applied in the amount of the established impairment in value.

### Holding-company activities

Amounts receivable are recognized at nominal value.
If, at the close of the financial year, the realization value of a receivable is lower than its carrying value, and if this impairment in value can be considered real and lasting in nature, a write-down is applied in the amount of the established impairment in value.

## d Securities

Securities are recorded under assets headings III, IX and X.
Securities are recognized at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

### d1 Investment portfolio

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as interest receivable in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.
Perpetual debt is valued at the lower of acquisition cost and market value.
If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is established on a case-by-case basis. Gains or losses are posted directly to the profit and loss account, except if they are derived from the sale of fixed-income investment securities in certain arbitrage transactions.

### Banking

In accordance with Article 35ter, §5, of the Royal Decree on the annual accounts of credit institutions, gains and losses on the sale of fixed-income investment securities in arbitrage transactions that are carried out within the bounds set annually by the Executive Committee are reflected in the profit and loss account, spread over the same time period as the future income derived from the arbitrage.
Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year based on the annual accounts for the previous year and material negative developments during the course of the year.
No write-downs are posted for shares hedged against a decline in price by means of an option.

### Insurance

Write-downs are posted on fixed-income investment securities serving to support liquidity if their market value is lower than the value arrived at by applying the other stipulations contained in these valuation rules and if uncertainty prevails regarding payment of all or part of the amount receivable on the maturity date.
Gains and losses on the sale of fixed-income investment securities for the purpose of arbitrage transactions are included in the profit and loss account, spread over the same time period as the future income derived from the arbitrage.
Shares and other variable-yield securities are valued at acquisition cost, with a write-down being charged in the event of a lasting impairment in value. According to this valuation rule, shares exhibiting an impairment in value for three consecutive years are marked to market. In addition, an impairment is recognized down to market value for those shares with a market price that is 80% lower than their

carrying value. Each share is moreover individually evaluated, and the Board of Directors decides on an *ad hoc* basis on any write-downs.

**Holding-company activities**

The treasury shares the KBC Bank and Insurance Holding Company has in portfolio (for the purposes of the employee stock option plan) are valued at acquisition cost.

d2 Trading portfolio

Securities belonging to the trading portfolio and investments for the benefit of life assurance policyholders who bear the investment risk are marked to market. The valuation differences this generates are recorded in the profit and loss account under, respectively, the 'Profit (Loss) on financial transactions' heading (for the banking operations) and under 'Investment income and charges' (for the insurance operations).

## e Financial fixed assets

Financial fixed assets are recorded under assets headings IV, IX and XV and, depending on the area of activity concerned, include participating interests, (subordinated) loans and securities held in portfolio. Included in holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio (by the bank), as another financial investment (by the insurer) or as an item that comes under 'Investments and cash at bank and in hand' (by the holding company), regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.
Participating interests accounted for using the equity method are valued according to the share held in the relevant companies' equity. Participating interests that are not included in the consolidation and shares constituting financial fixed assets are recognized at acquisition cost. Additional costs incurred on acquisition are charged forthwith to the results for the financial year.
Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.
Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

**Holding-company activities**

Financial fixed assets also include amounts receivable, which are recognized at nominal value. However, amounts receivable represented by fixed-income securities are valued at acquisition cost, minus or plus the accrued portion of the premium or discount that is released to the profit and loss account on a *pro rata* basis over the remaining term to maturity. If repayment of a security has become uncertain or doubtful, a write-down is posted according to the same principles that apply for valuing receivables which are not represented by securities.

## f Formation expenses and intangible fixed assets

Formation expenses and intangible fixed assets are recorded under assets headings V, VIII and XIV.
All formation expenses are charged directly to the profit and loss account for the financial year as administrative expenses.
Software developed in-house is charged immediately to the profit and loss account. Systems software is written off at the same rate as hardware. Standard software and software customized or developed by third parties is capitalized and written off according to the straight-line method over its useful economic life. Capitalized goodwill is written off according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

## g Goodwill on consolidation

Goodwill on consolidation is recorded under assets headings V, VIII and XIV and under liabilities headings V and Vbis.

**General principle**

Goodwill on consolidation is the difference at the time of acquisition between the acquisition cost and the corresponding share in the equity of the acquisition.
If such differences are caused by the over- or undervaluation of certain assets or liabilities, they are allocated to those items, which leads to a restatement of the annual accounts of the company in which a participating interest is held and which is included in the consolidation. The remaining difference – resulting from expectations as to the future profitability of the Group – is the goodwill on consolidation.
If the acquisition cost exceeds the share in the company's (possibly restated) equity, the consolidation difference is positive (goodwill). If the acquisition cost is lower than the share in the company's (possibly restated) equity, the consolidation difference is negative (negative goodwill, or 'badwill').

**Treatment of goodwill on consolidation for acquisitions prior to 1 January 1999**

Goodwill or negative goodwill on consolidation of up to 0.5 million euros is taken directly to the profit and loss account. Goodwill on consolidation in excess of 0.5 million euros is included in the consolidated accounts under the 'Goodwill on consolidation' heading on the assets or liabilities side of the balance sheet.
Capitalized goodwill is, in principle, written off over a period of ten years for banks and other financial institutions and over a period of five years for other companies, unless the Board of Directors decides otherwise. Supplementary or extraordinary amortization charges are taken for goodwill if it is no longer economically justified to keep it in the consolidated balance sheet at that value because of changes in economic circumstances.
Differences recorded on the liabilities side remain unchanged, unless the investment is subsequently sold or compensation is recorded for a positive difference subsequently established with respect to the same investment.

**Exceptional derogation for the 1998 financial year**

For 1998 (on the creation of the KBC Bank & Insurance Group), the following principle was observed: all gains and goodwill on consolidation resulting from the transfers that took place within the Group following the creation of the KBC Bank and Insurance Holding Company NV were fully reflected in the 1998 results as extraordinary income or an extraordinary charge, respectively.

**Treatment of goodwill on consolidation for acquisitions after 1 January 1999**

Goodwill on consolidation

For acquisitions since 1 January 1999, the BFC granted temporary authorization to depart from the rule and deduct positive goodwill on consolidation from the consolidated capital and reserves, specifically via liabilities heading 'Vbis Imputed goodwill on consolidation'. These differences were transferred periodically to reserves commensurate with the relevant theoretical amortization (in this case, over a ten-year period).
Accordingly, if a participation was sold within ten years of its having been acquired, the gains realized were set off against the goodwill still present under the 'Vbis Imputed goodwill on consolidation' heading in the capital and reserves.
The Board of Directors decided on a case-by-case basis whether or not to have recourse to the derogation allowed by the BFC.
The (temporary) derogation allowed by the BFC lapsed at the end of 2001, however. Consequently, the above method has been changed:
Goodwill on new acquisitions after 31 December 2001 is capitalized and amortized over a period of maximum twenty years (in accordance with international practice).
For all goodwill on consolidation that arose between 1 January 1999 and 31 December 2001, the theoretical amortization period has been changed to twenty years. The figures for the 1999 and 2000 financial years were not adjusted to take this into account retroactively, the adjusting entries were all made in the 2001 financial year via a shift from negative goodwill to the reserves.
In 2002, theoretical amortization under the derogation came to a total of 93.5 million euros. If the BFC had not authorized this derogation, return on equity would have come to 9.7% instead of 12.7%.

Negative goodwill on consolidation

These consolidation differences are included in the consolidated accounts under the 'Goodwill on consolidation (negative goodwill)' heading on the liabilities side of the balance sheet.
Differences recorded on the liabilities side remain unchanged, unless the investment is subsequently sold or compensation is recorded for a positive difference subsequently established with respect to the same investment.

## h Tangible fixed assets

Tangible fixed assets are recorded under assets headings VI, XIII and XVII.
All tangible fixed assets are recognized at acquisition cost, less accumulated depreciation. The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method.
When tangible fixed assets are sold, the realized gains or losses are posted directly to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.
Tangible fixed assets which exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.



**Banking and holding-company activities**
Non-recoverable tax is included in the acquisition cost, but is written off in the year of acquisition. Architects' and engineers' fees are recorded as a charge.

**Insurance**
The acquisition cost includes the purchase price and ancillary costs, such as non-recoverable tax. Non-deductible VAT, as well as other additional charges are depreciated at the same rate as the underlying assets, except if they relate to immovables which are written off in full during the acquisition year.

### i Accruals and deferrals accounts
The accruals and deferrals accounts allow income and expenditure to be allocated to the proper accounting period.
The option premiums received for the stock option plan are taken to the profit and loss account by the KBC Bank and Insurance Holding Company spread over a period of three years and five months; i.e. in the same way as the premiums paid at the group companies.

### j Amounts owed
Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected on an accruals basis in the profit and loss account.

### k Provisions for liabilities and charges
Provisions for liabilities and charges are recorded under liabilities headings XIV, XIX and XXII.
Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

**Pensions**
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances.

**Taxation**
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It covers at least the estimated amount of the final cost attendant on disputes that the company is aware of with the tax authorities at balance sheet date.

**Other liabilities and charges**
Provisions are set aside for, *inter alia*:
- legal disputes;
- major maintenance and repairs;
- commitment credit.

**Insurance**
In the insurance business, a provision for financial risks is set aside in order to cope with the risk of a loss or charge being incurred as a result of positions held in foreign currency, in securities or in other financial instruments, such as share price risk, exchange risk and other market risks. This provision is topped up on a consistent basis until a certain required amount is reached. This amount varies, depending on the financial risk position. Funds will be transferred from this provision according as losses or charges are incurred due to the relevant risks. For instance, if the recurring income expected from the (listed) share portfolio does not materialize due to a change in conditions prevailing on the market, this will mean that a financial risk has materialized. The recurring income expected from the (listed) share portfolio is calculated on the basis of a normalized historical return and the normalized historical market value of the (listed) share portfolio.

### l Contingent tax liabilities
Contingent tax liabilities are recorded under liabilities headings XV, XX and XXIII.
In the consolidated balance sheet and profit and loss account, account is taken of the difference on consolidation between the taxes to be allocated to the financial year and previous financial years and the taxes paid or still to be paid with respect to these financial years, if there are grounds for assuming that one of the consolidated companies will indeed incur charges as a result in the foreseeable future.
This rule is applied in the adjustment of the valuation rules of subsidiaries to bring them into line with those of the parent company for the purpose of consolidation. Where, on balance and per subsidiary, contingent tax liabilities of a temporary nature result, these are recorded in the accounts.

### m Technical provisions
The technical provisions are recorded under liabilities headings XVI and XVII.
For direct business, the provision for unearned premiums is, wherever possible, calculated according to the three-hundred-and-sixty-fifths method.
For reinsurance ceded, the provision for unearned premiums is calculated according to the contractual stipulations.
For reinsurance business received and retrocession, a rate of 50% of the eligible premiums for the current financial year is used for the computation.
The provision for the group of life assurance activities is computed according to the prevailing actuarial principles. At the consolidated level, the following rules apply:
- The technical provisions for (i) traditional, class-21 life assurance and (ii) universal, class-21 life assurance offering a guaranteed rate of interest on future payments are calculated using prospective actuarial formulas applied to basic underwriting assumptions made with regard to the contracts.
  For policies concluded prior to 1 January 1999 and for loan balance insurance taken out before 1 October 1999, the same rule applies, except as far as the interest rate is concerned, which in this case is 4%.
- The technical provisions for universal, class-21 life assurance offering no interest-rate guarantee on future payments are calculated using retrospective formulas applied to the basic underwriting assumptions underlying the contracts.
  For policies concluded prior to 1 January 1999, the same rule applies, except as far as the interest rate is concerned, which in this case is 4%.
- The technical provisions for class-23 (unit-linked) life assurance are computed by multiplying the number of units per fund by the price per unit of the fund in question.

Other technical provisions (mainly 'non-life'):
- The provision for claims outstanding is calculated per claim or per contract, and is based on known elements in the file.
  Amounts recoverable from third parties, the deductibles that have had to be paid to injured parties, the acquisition of the rights of insured persons against third parties (subrogation) and the acquisition of legal ownership of goods insured (salvage) are, in keeping with the law, not deducted from provisions for claims outstanding on the liabilities side of the balance sheet, but are capitalized under 'debtors'. A prudent estimate is recorded which is reflected directly in the result. Before 2002, the amount recovered from third parties was recorded on receipt. For details on the impact on figures, please see '3 Changes in valuation rules'.
- All amounts in the equalization and catastrophe provision are for offsetting the non-recurring underwriting losses in the years ahead, for equalizing fluctuations in the loss ratio, and for covering special risks. At the consolidated level, the required amount this provision should reach has been set aside since the 1998 financial year. This amount is calculated using the flat-rate methods described in the communication entitled 'Voorziening voor egalisatie en catastrofes' (Equalization and Catastrophe Provision) from the Belgian Insurance Supervisory Authority (CDV) D. 151.
  From financial year 2001, deferred tax assets will be posted in respect of the equalization and catastrophe provision. From financial year 2002, allocations to reach the required amount will be discontinued at the consolidated level. Transfers to/from the equalization and catastrophe provision will be made according to local regulations from now on, as implemented by the individual legal entities belonging to the KBC Insurance Group.

### n Consolidated reserves
The Group reserves include the reserves and the profit brought forward of the consolidating company, along with the Group's share in the retained profits of the other fully or proportionally consolidated companies and of the companies accounted for using the equity method from the start.

### o Minority interests
These include minority interests in the capital and reserves and in the profit (loss) of the fully consolidated companies. Minority interests also include the preference shares issued via KBC Bank. These shares may qualify as tier-1 capital for the purpose of calculating the solvency ratio.

### p Financial instruments
**Valuation rules for trading and non-trading activities**
Where trading activities are concerned, the unrealized profit or loss on revaluation is recognized at least at the end of every month. This revaluation takes into account any results realized from future cash flows that have already been recognized on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognized immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognized.
The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.
For non-trading activities, where interest rate instruments are concerned, the gains or losses realized are only recognized on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition,

non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general euro ALM interest rate management purposes is recognized solely on an accruals basis.
Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (FRAs).

- Valuation of OTC products

Products that may be traded either OTC or on an exchange are valued in exactly the same way in both cases.

- Hedging criteria for forward interest rate transactions

The general criteria are set out in Article 36bis of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.
Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists. Future interest rate positions can be hedged if it is reasonably certain that the position will actually come about. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealized profit/loss on revaluation

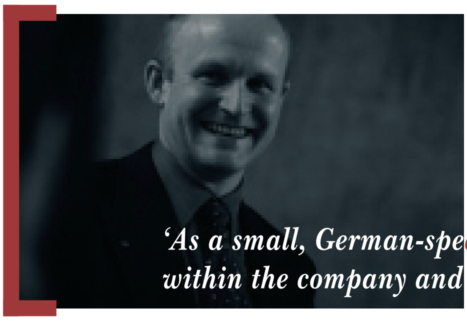
Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.
For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the 'net present value' of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For off-balance-sheet forward interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.
If a credit granted to a counterparty is classified as 'doubtful' or 'irrecoverable', the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be taken; for commitments, provisions will be set aside.

## 3 Changes in valuation rules

- From financial year 2002, amounts recoverable from third parties will be included, on the basis of a prudent estimate, in the result and capitalized under debtors (not deducted from the provision for claims outstanding). Amounts recoverable only used to be entered in the profit and loss account when they were received. This led to non-recurring income of 45 million euros being recorded for financial year 2002. Deferred tax liabilities in the amount of 15.3 million euros were recognized.
- Starting in financial year 2002, allocations to bring the equalization and catastrophe provision up to the required amount were discontinued at the consolidated level. Transfers to/from this provision will be made from now on according to local regulations, as applied by the individual legal entities belonging to the KBC Insurance Group. This change will have a positive impact of 6.5 million euros on the results for financial year 2002.
- Starting from financial year 2002, the positive difference arising from the translation of monetary items other than technical provisions, expressed in foreign currency will be allocated immediately to the result. Prior to 2002, this was only the case for negative differences: at that time, positive differences were included under the accruals and deferrals accounts. The change to this valuation rule has no material impact on the figures for financial year 2002.

**VALUATION OF FINANCIAL INSTRUMENTS**

| Products | Recognition on an accruals basis of fixed (and possible future) charges or income | Release to results of actual income or expenditure | Additional 'mark-to-market' or 'lower of cost and market' valuation (general LT interest rate management) |
|---|---|---|---|
| IRS and CIRS | hedging + trading + general ST + LT management | - | trading + general LT management in foreign currency |
| FX swaps and FX outrights | hedging + trading + general ST management | - | trading |
| Interest futures, FRAs, interest options and caps and floors | hedging + general ST + LT management | trading | trading + general LT management in foreign currency |
| Currency options | not applicable | hedging + trading | hedging + trading |
| Share options | not applicable | hedging + trading | trading |
| Equity swaps | hedging + trading | - | trading |



HERBERT WAUTERS
Branch Manager
KBC Eupen

*'As a small, German-speaking region in Belgium, we've got our own place within the company and can talk openly about our problems and achievements.'*

## NOTES TO THE BALANCE SHEET

### Note 1: Geographic and monetary breakdown of total assets, banking

**GEOGRAPHIC AND MONETARY BREAKDOWN OF TOTAL ASSETS, BANKING**

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total assets, banking** | **176 899 008** | **215 880 978** | **208 501 227** | **-3.4%** |
| Geographic breakdown | | | | |
| Belgium | 80 224 120 | 90 808 106 | 79 169 982 | -12.8% |
| Abroad | 96 674 888 | 125 072 872 | 129 331 245 | 3.4% |
| Euro zone | 39 792 567 | 47 799 404 | 43 598 633 | -8.8% |
| Monetary breakdown | | | | |
| In euros | 123 282 544 | 141 255 806 | 141 134 259 | -0.1% |
| In foreign currency | 53 616 464 | 74 625 173 | 67 366 968 | -9.7% |

### Note 2: Loans and advances to credit institutions, banking

**LOANS AND ADVANCES TO CREDIT INSTITUTIONS, BANKING**

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **21 860 314** | **28 291 266** | **29 298 616** | **3.6%** |
| Trade bills eligible for refinancing at the central bank of the country in which the institution is established | 56 198 | 47 655 | 58 678 | 23.1% |
| Geographic breakdown | | | | |
| Belgium | 4 709 937 | 6 607 831 | 6 020 269 | -8.9% |
| Abroad | 17 150 377 | 21 683 435 | 23 278 347 | 7.4% |
| Euro zone | 7 292 697 | 7 037 317 | 10 598 445 | 50.6% |
| Monetary breakdown | | | | |
| In euros | 13 502 566 | 17 219 087 | 20 346 115 | 18.2% |
| In foreign currency | 8 357 748 | 11 072 179 | 8 952 501 | -19.1% |
| Breakdown according to remaining term to maturity | | | | |
| Repayable on demand | 3 086 184 | 4 259 807 | 1 874 114 | -56.0% |
| With agreed maturity dates or periods of notice | 18 774 130 | 24 031 459 | 27 424 503 | 14.1% |
| ▮ Not more than three months | 10 953 276 | 15 347 675 | 21 604 876 | 40.8% |
| ▮ More than three months but not more than one year | 4 563 027 | 7 059 715 | 4 828 800 | -31.6% |
| ▮ More than one year but not more than five years | 1 138 914 | 1 183 441 | 802 156 | -32.2% |
| ▮ More than five years | 330 418 | 144 645 | 105 329 | -27.2% |
| ▮ Undated | 1 788 494 | 295 983 | 83 341 | -71.8% |

| **Write-downs and provisions** | | **31-12-2001** | | **31-12-2002** |
|---|---|---|---|---|
| **(for changes: see Note 4)** | **Belgium** | **Abroad** | **Belgium** | **Abroad** |
| Gross amount outstanding | 6 607 831 | 21 691 732 | 6 020 269 | 23 308 608 |
| Write-downs and provisions | 0 | -8 297 | 0 | -30 262 |
| **Net amount outstanding** | **6 607 831** | **21 683 435** | **6 020 269** | **23 278 347** |
| Breakdown, write-downs and provisions | | | | |
| Specific write-downs for loans and advances with an uncertain outcome | 0 | -4 662 | 0 | -9 493 |
| General provision for country risks | 0 | -3 635 | 0 | -20 768 |

## Note 3: Loans and advances to customers, banking

### LOANS AND ADVANCES TO CUSTOMERS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **78 936 173** | **87 046 937** | **98 775 117** | **13.5%** |
| Trade bills eligible for refinancing at the central bank of the country in which the institution is established | 47 134 | 66 970 | 15 709 | -76.5% |
| Subordinated loans | 5 924 | 27 057 | 39 390 | 45.6% |
| Geographic breakdown | | | | |
| Belgium | 46 595 331 | 49 064 444 | 48 608 807 | -0.9% |
| Abroad | 32 340 842 | 37 982 492 | 50 166 310 | 32.1% |
| Euro zone | 10 279 856 | 9 971 372 | 10 432 953 | 4.6% |
| Monetary breakdown | | | | |
| In euros | 58 832 666 | 59 278 933 | 71 305 983 | 20.3% |
| In foreign currency | 20 103 506 | 27 768 004 | 27 469 134 | -1.1% |
| Breakdown according to remaining term to maturity | | | | |
| With agreed maturity dates or periods of notice | 78 936 174 | 87 046 937 | 98 775 117 | 13.5% |
| ▪ Not more than three months | 19 242 631 | 20 370 865 | 27 364 426 | 34.3% |
| ▪ More than three months but not more than one year | 7 998 364 | 12 370 881 | 9 631 740 | -22.1% |
| ▪ More than one year but not more than five years | 21 904 183 | 24 326 836 | 24 293 574 | -0.1% |
| ▪ More than five years | 23 247 854 | 24 406 265 | 30 273 355 | 24.0% |
| ▪ Undated | 6 543 142 | 5 572 088 | 7 212 022 | 29.4% |
| Breakdown by type of credit | | | | |
| Discount and acceptance credit | 909 794 | 810 941 | 552 025 | -31.9% |
| Consumer credit | 3 075 074 | 3 279 143 | 2 937 421 | -10.4% |
| Mortgage loans | 17 039 171 | 17 817 050 | 20 521 136 | 15.2% |
| Term loans at more than one year | 30 351 663 | 37 025 382 | 36 533 250 | -1.3% |
| Term loans at not more than one year | 16 013 594 | 13 788 351 | 24 114 271 | 74.9% |
| Current account advances | 5 504 080 | 5 894 016 | 5 845 650 | -0.8% |
| Other amounts receivable | 5 815 801 | 8 723 739 | 8 378 986 | -4.0% |
| Doubtful loans, write-downs and provisions | 226 996 | -291 683 | -107 623 | -63.1% |

| **Geographic breakdown** | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | **Belgium** | **Abroad** | **Belgium** | **Abroad** |
| Discount and acceptance credit | 335 172 | 475 769 | 268 082 | 283 943 |
| Consumer credit | 3 179 588 | 99 555 | 2 909 198 | 28 223 |
| Mortgage loans | 14 803 719 | 3 013 331 | 15 868 346 | 4 652 790 |
| Term loans at more than one year | 16 137 901 | 20 887 481 | 17 062 916 | 19 470 334 |
| Term loans at not more than one year | 7 232 568 | 6 555 783 | 6 356 508 | 17 757 763 |
| Current account advances | 3 756 439 | 2 137 578 | 3 561 132 | 2 284 518 |
| Other amounts receivable | 3 397 527 | 5 326 211 | 2 329 441 | 6 049 546 |
| Doubtful loans, write-downs and provisions | 221 531 | -513 215 | 253 185 | -360 808 |
| Total | 49 064 444 | 37 982 492 | 48 608 807 | 50 166 310 |

| **Write-downs and provisions** | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| **(for changes: see Note 4)** | **Belgium** | **Abroad** | **Belgium** | **Abroad** |
| Loans and advances to customers, gross amount | 50 037 093 | 39 318 843 | 49 632 804 | 51 485 004 |
| Write-downs and provisions | -972 648 | -1 336 351 | -1 023 997 | -1 318 695 |
| Loans and advances to customers, net amount | 49 064 444 | 37 982 492 | 48 608 807 | 50 166 310 |
| Breakdown, write-downs and provisions | | | | |
| Specific write-downs for doubtful and irrecoverable loans and advances | -809 557 | -449 580 | -880 056 | -581 343 |
| Specific write-downs for loans and advances with an uncertain outcome* | -163 091 | -638 055 | -143 941 | -600 033 |
| General provision for international credit | 0 | -183 055 | 0 | -112 349 |
| General provision for country risks | 0 | -65 661 | 0 | -24 970 |

* Including write-downs for loans and advances with an uncertain outcome, calculated on a portfolio basis.

Loans and advances to customers in the banking business went up by almost 14% to 99 billion euros. This growth was generated abroad and, aside from the increase in lending activities at *inter alia* ČSOB and K&H Bank, was accounted for primarily by the sharp rise in reverse repos with a British clearing organization.
The volume of outstanding home loans climbed by 15% in 2002 (up 7% in Belgium, 45% in Ireland and 100% in Central Europe). The increase in term loans at not more than one year was due to a number of factors, including the above-mentioned reverse repos.

## Note 4: Write-downs on and provisions for loans and advances to credit institutions and customers, banking

### WRITE-DOWNS ON AND PROVISIONS FOR LOANS AND ADVANCES TO CREDIT INSTITUTIONS AND CUSTOMERS, BANKING

| (In thousands of EUR) | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Belgium | Abroad | Belgium | Abroad |
| Write-downs on and provisions for | 972 648 | 1 344 648 | 1 023 997 | 1 348 956 |
| Loans and advances to credit institutions | 0 | 8 297 | 0 | 30 262 |
| Loans and advances to customers | 972 648 | 1 336 351 | 1 023 997 | 1 318 695 |
| Write-downs on and provisions for | 972 648 | 1 344 648 | 1 023 997 | 1 348 956 |
| Irrecoverable and doubtful loans | 809 557 | 449 580 | 880 056 | 581 343 |
| Loans with an uncertain outcome | 163 091 | 642 008 | 143 941 | 609 527 |
| General credit risks* | 0 | 183 764 | 0 | 112 349 |
| Country risks | 0 | 69 295 | 0 | 45 738 |

### WRITE-DOWNS ON AND PROVISIONS FOR LOANS AND ADVANCES, 2002

| (In thousands of EUR) | Irrecoverable and doubtful loans | Loans with an uncertain outcome | General credit risks* | Country risks |
|---|---|---|---|---|
| Loans and advances to domestic borrowers | | | | |
| Opening balance | 809 557 | 163 091 | 0 | 0 |
| Movements with an impact on results | | | | |
| - Increase | 178 974 | 49 333 | 0 | 0 |
| - Decrease | -44 886 | -38 068 | 0 | 0 |
| Movements without an impact on results | | | | |
| - Write-offs | -88 046 | -13 150 | 0 | 0 |
| - Translation differences | 6 251 | 0 | 0 | 0 |
| - Change in the scope of consolidation and reclassification | 18 206 | -17 266 | 0 | 0 |
| Closing balance | 880 056 | 143 941 | 0 | 0 |
| Loans and advances to borrowers abroad | | | | |
| Opening balance | 449 580 | 642 008 | 183 764 | 69 295 |
| Movements with an impact on results | | | | |
| - Increase | 559 383 | 425 842 | 19 399 | 4 697 |
| - Decrease | -353 244 | -255 108 | -56 494 | -28 363 |
| Movements without an impact on results | | | | |
| - Write-offs | -125 985 | -186 947 | -1 248 | 0 |
| - Translation differences | -35 340 | -33 693 | -12 314 | 117 |
| - Change in the scope of consolidation and reclassification | 86 949 | 17 424 | -20 758 | -8 |
| Closing balance | 581 343 | 609 527 | 112 349 | 45 738 |
| Loans and advances to credit institutions and customers | | | | |
| Opening balance | 1 259 138 | 805 099 | 183 764 | 69 295 |
| Movements with an impact on results | | | | |
| - Increase | 738 357 | 475 175 | 19 399 | 4 697 |
| - Decrease | -398 130 | -293 176 | -56 494 | -28 363 |
| Movements without an impact on results | | | | |
| - Write-offs | -214 031 | -200 096 | -1 248 | 0 |
| - Translation differences | -29 089 | -33 693 | -12 314 | 117 |
| - Change in the scope of consolidation and reclassification | 105 155 | 158 | -20 758 | -8 |
| Closing balance | 1 461 399 | 753 467 | 112 349 | 45 738 |

* General provision for international credit.

For comments, see 'Note 30: Write-downs on and provisions for credit risks, banking'.

## Note 5: Securities, banking

### SECURITIES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **A Total portfolio** | **58 174 781** | **66 224 733** | **61 895 263** | **-6.5%** |
| Geographic breakdown | | | | |
| Belgium | 24 470 234 | 22 604 189 | 21 639 183 | -4.3% |
| Abroad | 33 704 546 | 43 620 544 | 40 256 080 | -7.7% |
| Euro zone | 19 565 443 | 25 719 433 | 19 118 388 | -25.7% |
| Monetary breakdown | | | | |
| In euros | 43 899 005 | 48 489 699 | 41 552 028 | -14.3% |
| In foreign currency | 14 275 776 | 17 735 034 | 20 343 235 | 14.7% |
| Breakdown by type of security | | | | |
| Fixed-income securities | 51 841 558 | 60 525 434 | 57 214 470 | -5.5% |
| ▪ Treasury bills eligible for refinancing at the central bank | 3 858 170 | 3 468 148 | 2 949 606 | -15.0% |
| ▪ Bonds and other fixed-income securities | 47 983 388 | 57 057 285 | 54 264 864 | -4.9% |
| Shares and other variable-yield securities | 6 333 222 | 5 699 299 | 4 680 793 | -17.9% |

| **Breakdown by type of security and portfolio** | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | **Trading portfolio** | **Investment portfolio** | **Trading portfolio** | **Investment portfolio** |
| Total fixed-income securities | 9 318 395 | 51 207 039 | 15 313 433 | 41 901 037 |
| Treasury bills eligible for refinancing at the central bank | 599 342 | 2 868 807 | 921 755 | 2 027 851 |
| Bonds and other fixed-income securities | 8 719 053 | 48 338 232 | 14 391 678 | 39 873 186 |
| ▪ Public issuers | 3 905 324 | 39 256 810 | 6 865 865 | 31 737 763 |
| - Belgian government | 725 775 | 18 937 055 | 2 136 517 | 16 917 664 |
| - Other governments | 3 179 549 | 20 319 755 | 4 729 348 | 14 820 099 |
| ▪ Other issuers | 4 813 729 | 9 081 422 | 7 525 814 | 8 135 423 |
| A Belgian issuers | 110 571 | 548 137 | 131 240 | 487 100 |
| Other issuers | 4 703 158 | 8 533 286 | 7 394 573 | 7 648 323 |
| B Credit institutions | 1 085 588 | 6 167 205 | 1 790 237 | 5 281 008 |
| Other | 3 728 141 | 2 914 217 | 5 735 577 | 2 854 415 |
| Shares and other variable-yield securities | 4 266 001 | 1 433 298 | 3 611 553 | 1 069 240 |
| - Belgian issuers | 639 215 | 436 697 | 241 209 | 398 956 |
| - Other issuers | 3 626 786 | 996 601 | 3 370 344 | 670 284 |
| Total, securities portfolio | 13 584 396 | 52 640 337 | 18 924 986 | 42 970 277 |

| **Premiums, discounts, etc.** | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | **Trading portfolio** | **Investment portfolio** | **Trading portfolio** | **Investment portfolio** |
| Bonds and other fixed-income securities | | | | |
| Trading portfolio | | | | |
| ▪ Positive difference between market value and acquisition cost | 29 564 | - | 369 | - |
| Investment portfolio | | | | |
| ▪ Premiums (positive difference between redemption value and carrying value) | - | 370 735 | - | 352 563 |
| ▪ Discounts (negative difference between redemption value and carrying value) | - | 1 375 019 | - | 1 059 735 |
| Shares and other variable-yield securities | | | | |
| Trading portfolio | | | | |
| ▪ Positive difference between market value and acquisition cost | 3 201 | - | 28 199 | - |



**B Total portfolio, excl. treasury bills eligible for refinancing at the central bank**

| Breakdown according to remaining term to maturity | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Bonds | Shares | Bonds | Shares |
| Not more than one year | 12 342 851 | - | 8 281 891 | - |
| More than one year | 44 714 434 | - | 45 982 974 | - |
| Shares | - | 5 699 299 | - | 4 680 793 |

| Listing and market value | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Bonds | Shares | Bonds | Shares |
| Carrying value, unlisted securities | 2 853 177 | 320 230 | 820 204 | 280 769 |
| Carrying value, listed securities | 54 204 108 | 5 379 069 | 53 444 660 | 4 400 024 |
| Market value, listed securities | 54 845 525 | 5 696 233 | 55 074 331 | 4 486 007 |
| Unrealized gains | 641 417 | 317 164 | 1 629 671 | 85 982 |

**C Investment portfolio***

| Gross amount, net amount and write-downs | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Bonds | Shares | Bonds | Shares |
| Gross amount outstanding | 48 371 721 | 1 602 450 | 39 933 000 | 1 332 276 |
| Write-downs | -33 489 | -169 151 | -59 814 | -263 036 |
| Net amount outstanding | 48 338 232 | 1 433 298 | 39 873 186 | 1 069 240 |

| Gross amount outstanding | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Bonds | Shares | Bonds | Shares |
| Opening balance | 42 733 176 | 1 103 407 | 48 371 721 | 1 602 450 |
| ▌Acquisitions | 41 708 469 | 526 278 | 45 651 067 | 411 856 |
| ▌Carrying value, transfers | -37 937 783 | -356 601 | -53 248 646 | -712 036 |
| ▌Accrued (discounts) premiums (Art. 35ter §4 and 5 of Royal Decree of 23 Sept. 1992) | 2 449 | 0 | -42 810 | 0 |
| ▌Translation differences | 560 404 | 11 554 | -790 994 | -4 809 |
| ▌Transferred from one heading to another | 0 | -2 345 | 0 | 0 |
| ▌Changes in the scope of consolidation | 1 305 006 | 153 845 | -7 337 | 34 815 |
| ▌Other movements | 0 | 166 312 | 0 | 0 |
| Closing balance | 48 371 721 | 1 602 450 | 39 933 000 | 1 332 276 |

| Movements, write-downs | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Bonds | Shares | Bonds | Shares |
| Opening balance | 44 411 | 75 130 | 33 489 | 169 151 |
| ▌Movements with an impact on results | | | | |
| - Increase | 18 098 | 105 854 | 34 096 | 197 321 |
| - Decrease | -18 681 | -16 581 | -425 | -28 850 |
| ▌Movements without an impact on results | | | | |
| - Write-offs | -20 829 | -12 353 | -1 707 | -32 722 |
| - Translation differences | 2 359 | 778 | -131 | -3 786 |
| - Change in the scope of consolidation and reclassification | 8 131 | 16 323 | -5 508 | -38 078 |
| Closing balance | 33 489 | 169 151 | 59 814 | 263 036 |

* Excluding treasury bills eligible for refinancing at the central bank.

The securities portfolio decreased by approximately 7% to 62 billion euros, with some 70% being accounted for by the investment portfolio and 30% by the trading portfolio. Fixed-income paper accounts for roughly 92% of the securities portfolio, while shares and variable-yield securities account for the rest.

The 18% drop in variable-yield securities was attributable primarily to the decrease in the investment portfolios of KBC Bank NV, Centea and ČSOB, as well as to a decline in the trading portfolios of KBC Financial Products and KBC Securities. Fixed-income securities fell by 6% chiefly at KBC Bank NV and IIB Finance, though this was partially offset by growth at ČSOB and KBC Financial Products.

Total unrealized gains on securities soared by almost 80% to 1 716 million euros, thanks exclusively to the increase in unrealized gains on bonds (by more than 150% to 1 630 million euros), while unrealized gains on shares plummeted (by 73%) to 86 million euros.

## Note 6: Financial fixed assets, banking

### FINANCIAL FIXED ASSETS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **616 387** | **193 817** | **686 385** | **254.1%** |
| Participating interests | 558 928 | 170 271 | 553 074 | 224.8% |
| Subordinated loans | 57 458 | 23 546 | 133 312 | 466.2% |
| **Breakdown of participating interests** | | | | |
| Participating interests in companies accounted for using the equity method | 253 102 | 41 465 | 233 394 | 462.9% |
| ▪ Participating interests in credit institutions | 187 603 | 16 886 | 180 325 | 967.9% |
| ▪ Participating interests in other financial institutions | 65 499 | 16 797 | 37 227 | 121.6% |
| ▪ Other participating interests | 0 | 7 782 | 15 841 | 103.6% |
| Other participating interests | 305 827 | 128 806 | 319 680 | 148.2% |
| ▪ Participating interests in credit institutions | 5 933 | 3 352 | 110 929 | - |
| ▪ Participating interests in other financial institutions and other participating interests | 299 893 | 125 454 | 208 751 | 66.4% |
| **Breakdown of subordinated loans and advances** | | | | |
| Participating interests in companies accounted for using the equity method | 42 994 | 7 | 120 007 | - |
| ▪ to credit institutions | 42 994 | 0 | 120 000 | - |
| ▪ to other financial institutions | 0 | 7 | 7 | 0.0% |
| Other participating interests | 14 464 | 23 540 | 13 305 | -43.5% |
| ▪ to other financial institutions | 14 464 | 20 886 | 11 159 | -46.6% |
| ▪ to other companies in which a participating interest is held | 0 | 2 654 | 2 145 | -19.2% |
| **Listing and market value, participating interests** | | | | |
| Carrying value, unlisted securities | 352 464 | 168 885 | 366 365 | 116.9% |
| Carrying value, listed securities | 206 465 | 1 386 | 186 708 | - |
| Market value, listed securities | 202 302 | 3 041 | 213 378 | - |
| Unrealized gains | -4 163 | 1 655 | 26 670 | - |

| **Acquisition cost, participating interests** | 2001 | | 2002 | |
|---|---|---|---|---|
| | Accounted for using the equity method | Other | Accounted for using the equity method | Other |
| Opening balance (gross) | 253 102 | 349 994 | 41 465 | 168 732 |
| ▪ Acquisitions | 0 | 49 652 | 187 192 | 64 228 |
| ▪ Carrying value, transfers | -881 | -56 505 | -450 | -13 523 |
| ▪ Share in the result for the period | 2 907 | - | 7 411 | - |
| ▪ Translation differences | -145 | 3 414 | 23 | -213 |
| ▪ Transferred from one heading to another | 0 | -162 642 | 0 | 225 874 |
| ▪ Changes in the scope of consolidation | -213 518 | -15 181 | -392 | -50 846 |
| ▪ Change in uncalled amounts | 0 | 0 | 0 | 2 093 |
| ▪ Other movements | 0 | 0 | -1 854 | 0 |
| Closing balance (gross) | 41 465 | 168 732 | 233 394 | 396 345 |

| **Gross amount, net amount and write-downs, participating interests** | 2001 | | 2002 | |
|---|---|---|---|---|
| | Accounted for using the equity method | Other | Accounted for using the equity method | Other |
| Gross amount outstanding | 41 465 | 168 732 | 233 394 | 396 345 |
| Write-downs | 0 | 39 926 | 0 | 76 665 |
| Net amount outstanding | 41 465 | 128 806 | 233 394 | 319 680 |

The sharp rise (+463%) in participating interests accounted for using the equity method was due primarily to the acquisition of a 34% stake in Nova Ljubljanska banka (Slovenia) and the transfer of a number of participating interests from investment securities to financial fixed assets. The substantial increase in subordinated loans and advances had to do with a subordinated loan to Nova Ljubljanska banka.



## Note 7: (In)tangible fixed assets, goodwill on consolidation and other assets, banking

### (IN)TANGIBLE FIXED ASSETS, GOODWILL ON CONSOLIDATION AND OTHER ASSETS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Intangible fixed assets and goodwill on consolidation | 165 373 | 207 322 | 542 580 | 161.7% |
| Formation expenses and intangible fixed assets | 120 956 | 171 611 | 195 570 | 14.0% |
| Goodwill on consolidation* | 44 417 | 35 711 | 347 010 | 871.7% |
| Tangible fixed assets | 1 801 033 | 2 091 340 | 2 147 372 | 2.7% |
| Land and buildings | 1 089 952 | 1 111 431 | 1 129 750 | 1.6% |
| Plant, machinery and equipment | 150 585 | 217 677 | 229 585 | 5.5% |
| Furniture and vehicles | 82 895 | 106 969 | 98 192 | -8.2% |
| Leasing and similar rights | 9 316 | 11 916 | 22 099 | 85.5% |
| Other tangible fixed assets | 443 483 | 542 227 | 601 197 | 10.9% |
| - Operational leasing at KBC Lease Group | 366 485 | 447 012 | 484 500 | 8.4% |
| Assets under construction and advance payments | 24 801 | 101 121 | 66 548 | -34.2% |
| Other assets | 15 344 948 | 31 825 563 | 15 155 893 | -52.4% |
| Cash in hand, balances at central banks and post office banks | 729 988 | 1 259 396 | 1 210 540 | -3.9% |
| Deferred charges and accrued income | 6 051 853 | 19 117 385 | 9 740 457 | -49.0% |
| Other assets | 8 563 106 | 11 448 782 | 4 204 897 | -63.3% |

* See also 'Changes in valuation rules' and 'Note 11: Capital and reserves, Group'.

The goodwill paid on acquisitions between 1 January 1999 and 31 December 2001 was deducted directly from capital and reserves (see valuation rules), under a temporary derogation authorized by the Belgian Banking and Finance Commission. Since this derogation expired on 1 January 2002, goodwill on new acquisitions after 31 December 2001 has been capitalized and amortized over a period of twenty years (in accordance with international practice).

The sharp rise in capitalized goodwill relates chiefly to the acquisition of a 34% stake in Nova Ljubljanska banka (Slovenia) and the increased participating interest in Kredyt Bank (Poland). The considerable decline in 'Other assets' was accounted for mainly by 'Deferred charges and accrued income' and the transfer of assets by ČSOB to the Czech Consolidation Agency.

### (IN)TANGIBLE FIXED ASSETS, GOODWILL ON CONSOLIDATION AND OTHER ASSETS, BANKING

| (In)tangible fixed assets, 2002 (In thousands of EUR) | Formation expenses and intangible fixed assets | Total tangible fixed assets | Land and buildings | Plant, machinery and equipment | Furniture and vehicles | Leasing and similar rights | Other tangible fixed assets | Assets under construction and advance payments |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost | | | | | | | | |
| Opening balance | 353 616 | 3 512 721 | 1 635 879 | 665 466 | 298 654 | 19 524 | 791 802 | 101 396 |
| Acquisitions | 130 575 | 863 560 | 125 744 | 164 271 | 34 119 | 10 609 | 445 833 | 82 983 |
| Transfers and asset retirements | -38 493 | -587 684 | -63 654 | -59 310 | -28 509 | -1 943 | -347 990 | -86 279 |
| Transferred from one heading to another | 0 | 0 | 10 837 | 10 729 | 6 875 | 442 | -943 | -27 940 |
| Translation differences | -5 659 | -30 430 | -4 767 | -11 461 | -2 138 | -2 149 | -6 126 | -3 788 |
| Other movements | 8 783 | 34 784 | 12 174 | 201 | 2 944 | 6 436 | 12 853 | 176 |
| Closing balance | 448 821 | 3 792 951 | 1 716 213 | 769 896 | 311 945 | 32 920 | 895 429 | 66 548 |
| Revaluation surpluses | | | | | | | | |
| Opening balance | 0 | 117 411 | 117 411 | 0 | 0 | 0 | 0 | 0 |
| Written off | 0 | -7 927 | -7 927 | 0 | 0 | 0 | 0 | 0 |
| Other movements | 0 | 2 552 | 2 552 | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 112 036 | 112 036 | 0 | 0 | 0 | 0 | 0 |
| Write-downs and depreciation | | | | | | | | |
| Opening balance | 182 005 | 1 538 791 | 641 859 | 447 791 | 191 684 | 7 608 | 249 575 | 275 |
| Recorded | 72 229 | 366 593 | 86 605 | 137 482 | 27 655 | 3 820 | 111 030 | 0 |
| Written back | 0 | -151 | -51 | -84 | -17 | 0 | 0 | 0 |
| Written off | -1 680 | -143 711 | -32 139 | -39 867 | -7 643 | -1 202 | -62 610 | -249 |
| Transferred from one heading to another | 0 | 0 | 182 | 551 | 1 168 | 0 | -1 901 | 0 |
| Translation differences | -1 572 | -9 251 | -227 | -5 816 | -1 055 | -289 | -1 863 | 0 |
| Other movements | 2 270 | 5 344 | 2 270 | 254 | 1 961 | 885 | 0 | -26 |
| Closing balance | 253 251 | 1 757 615 | 698 499 | 540 310 | 213 752 | 10 821 | 294 232 | 0 |
| Net carrying value as at the end of the financial year | 195 570 | 2 147 372 | 1 129 750 | 229 585 | 98 192 | 22 098 | 601 198 | 66 548 |

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Corporate, Sovereign and Interbank Credit Directorate
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*'Just like every other company, KBC has to cope with change.*
*In my department, employees are closely involved in the whole process of change.'*

## Note 8: Investments, insurance

### INVESTMENTS, INSURANCE

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Carrying value | | | | |
| ▪ Investments | 8 266 818 | 8 657 609 | 10 063 997 | 16.2% |
| ▪ Land and buildings | 134 481 | 164 369 | 201 860 | 22.8% |
| ▪ Participating interests in companies accounted for using the equity method | 102 458 | 104 189 | 106 741 | 2.4% |
| ▪ Other participating interests | 49 833 | 14 439 | 135 333 | 837.3% |
| ▪ Shares and other variable-yield securities | 2 465 920 | 2 793 655 | 2 812 570 | 0.7% |
| ▪ Bonds and other fixed-income securities | 5 073 934 | 5 168 591 | 6 238 954 | 20.7% |
| ▪ Participation in investment pools | 38 991 | 39 724 | 39 421 | -0.8% |
| ▪ Loans guaranteed by mortgages and other loans | 189 998 | 176 327 | 169 891 | -3.7% |
| ▪ Deposits with ceding companies | 116 193 | 132 792 | 129 921 | -2.2% |
| ▪ Other | 95 011 | 63 521 | 229 307 | 261.0% |
| Investments for the benefit of life assurance policyholders who bear the investment risk | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| Total carrying value, investments | 10 552 786 | 11 609 717 | 12 877 188 | 10.9% |
| Market value | | | | |
| Investments | 9 782 380 | 9 461 593 | 10 146 148 | 7.2% |
| ▪ Land and buildings | 233 310 | 264 358 | 303 009 | 14.6% |
| ▪ Participating interests in companies accounted for using the equity method | 103 722 | 108 770 | 103 255 | -5.1% |
| ▪ Other participating interests | 136 395 | 16 565 | 192 339 | - |
| ▪ Shares and other variable-yield securities | 3 531 964 | 3 213 823 | 2 242 873 | -30.2% |
| ▪ Bonds and other fixed-income securities | 5 327 330 | 5 442 474 | 6 736 443 | 23.8% |
| ▪ Participation in investment pools | 40 393 | 40 343 | 40 150 | -0.5% |
| ▪ Loans guaranteed by mortgages and other loans | 189 998 | 176 327 | 169 891 | -3.7% |
| ▪ Deposits with ceding companies | 116 193 | 132 792 | 129 921 | -2.2% |
| ▪ Other | 103 075 | 66 140 | 228 267 | 245.1% |
| Investments for the benefit of life assurance policyholders who bear the investment risk | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| Total market value, investments | 12 068 348 | 12 413 701 | 12 959 339 | 4.4% |
| Unrealized gains | | | | |
| ▪ Participating interests, shares and other variable-yield securities | 1 153 871 | 426 875 | -516 177 | - |
| ▪ Bonds and other fixed-income securities | 253 396 | 273 882 | 497 490 | 81.6% |
| ▪ Other | 108 295 | 103 227 | 100 838 | -2.3% |
| Total unrealized gains | 1 515 562 | 803 984 | 82 151 | -89.8% |

Investments represent 91% of the assets in the insurance business, with 20 percentage points accounted for by 'Investments for the benefit of life assurance policyholders who bear the investment risk'.

The market value of the share portfolio (excluding unit-linked products) tumbled by 30% to 2 243 million euros, unrealized losses on this portfolio (including participating interests) amounting to 516 million euros.

On the other hand, the market value of the portfolio of fixed-income securities climbed by 24% to 6 736 million euros, due to the interest-rate trend and net purchases. Unrealized gains on this portfolio grew by 82% to 497 million euros.



**INVESTMENTS, 2002**

| (In thousands of EUR) | Land and buildings | Participating interests in associated companies | Participating interests in companies linked by participating interests | Debt securities issued by and loans and advances to companies linked by participating interests | Participating interests in companies accounted for using the equity method | Shares, participating interests and other variable-yield securities | Bonds and other fixed-income securities | Debt securities issued by and loans and advances to companies linked by participating interests |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost | | | | | | | | |
| Opening balance | 289 261 | 4 415 | 12 397 | 0 | 104 189 | 2 838 421 | 5 176 548 | 2 479 |
| ▮ Acquisitions | 56 202 | 0 | 633 | 0 | 3 796 | 1 330 160 | 2 524 110 | 0 |
| ▮ Transfers and asset retirements | -4 145 | -209 | -15 | 0 | 0 | -916 523 | -1 454 095 | 0 |
| ▮ Transferred from one heading to another | 0 | -15 | 123 715 | 0 | 0 | -123 701 | 0 | 0 |
| ▮ Translation differences | 0 | 0 | 0 | 0 | -5 099 | 0 | 0 | 0 |
| ▮ Result for the period | 0 | 0 | 0 | 0 | 3 543 | 0 | 0 | 0 |
| ▮ Other movements | -198 | 0 | 0 | 0 | 312 | 0 | 1 264 | 0 |
| Closing balance | 341 119 | 4 192 | 136 732 | 0 | 106 741 | 3 128 358 | 6 247 827 | 2 479 |
| Revaluation surpluses | | | | | | | | |
| Opening balance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ▮ Written off | 0 | 0 | 0 | 0 | 0 | -1 762 | 3 000 | 0 |
| Closing balance | 0 | 0 | 0 | 0 | 0 | -1 762 | 3 000 | 0 |
| Write-downs and depreciation | | | | | | | | |
| ▮ Opening balance | 124 892 | 1 620 | 548 | 0 | 0 | 41 949 | 10 436 | 0 |
| ▮ Recorded | 16 773 | 653 | 1 128 | 0 | 0 | 275 662 | 6 640 | 0 |
| ▮ Written back | 0 | 0 | 0 | 0 | 0 | -2 428 | -2 723 | 0 |
| ▮ Written off | -2 405 | -203 | -1 | 0 | 0 | -4 815 | 0 | 0 |
| ▮ Transferred from one heading to another | 0 | 0 | 1 777 | 0 | 0 | -1 777 | 0 | 0 |
| Closing balance | 139 260 | 2 070 | 3 453 | 0 | 0 | 308 591 | 14 353 | 0 |
| Uncalled amounts | | | | | | | | |
| Opening balance | 0 | 0 | 205 | 0 | 0 | 2 817 | 0 | 0 |
| ▮ Movements during the financial year | 0 | 0 | -137 | 0 | 0 | 2 617 | 0 | 0 |
| Closing balance | 0 | 0 | 68 | 0 | 0 | 5 434 | 0 | 0 |
| Net carrying value as at the end of the financial year | 201 860 | 2 122 | 133 211 | 0 | 106 741 | 2 812 570 | 6 236 475 | 2 479 |

## Note 9: (In)tangible fixed assets, goodwill on consolidation, debtors and other assets, insurance

**(IN)TANGIBLE FIXED ASSETS, GOODWILL ON CONSOLIDATION, DEBTORS AND OTHER ASSETS, INSURANCE**

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Debtors | 307 915 | 335 332 | 478 166 | 42.6% |
| Arising out of direct insurance operations | 143 756 | 130 934 | 190 661 | 45.6% |
| Arising out of reinsurance operations | 84 981 | 83 644 | 144 623 | 72.9% |
| Other debtors and called capital as yet unpaid | 79 178 | 120 755 | 142 882 | 18.3% |
| Other assets | 376 278 | 382 565 | 417 776 | 9.2% |
| Deferred charges and accrued income | 184 440 | 184 216 | 205 542 | 11.6% |
| Other assets | 191 837 | 198 349 | 212 234 | 7.0% |
| Intangible fixed assets and goodwill on consolidation | 81 487 | 82 344 | 100 894 | 22.5% |
| Formation expenses and intangible fixed assets | 70 931 | 73 512 | 62 098 | -15.5% |
| Goodwill on consolidation (see Note 11: Capital and reserves) | 10 556 | 8 832 | 38 796 | 339.3% |

| Formation expenses and intangible fixed assets | 2001 | 2002 |
|---|---|---|
| Acquisition cost | | |
| Opening balance | 128 110 | 146 042 |
| ▮ Acquisitions | 31 517 | 14 065 |
| ▮ Transfers and asset retirements | -13 557 | -4 560 |
| ▮ Transferred from one heading to another | -16 | 0 |
| ▮ Other movements | -13 | 0 |
| Closing balance | 146 042 | 155 547 |
| Write-downs and depreciation | | |
| Opening balance | 57 179 | 72 530 |
| ▮ Recorded | 15 873 | 24 948 |
| ▮ Written back | 0 | -3 983 |
| ▮ Written off | -522 | -46 |
| Closing balance | 72 530 | 93 450 |
| Net carrying value | 73 511 | 62 098 |

## Note 10: Financial fixed assets, holding-company activities

### FINANCIAL FIXED ASSETS, HOLDING-COMPANY ACTIVITIES

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **296 466** | **336 955** | **341 313** | **1.3%** |
| Other participating interests | 296 466 | 336 955 | 341 313 | 1.3% |
| ▪ Subordinated loans and advances | 296 466 | 336 955 | 341 313 | 1.3% |

'Other participating interests' are accounted for primarily by the subscription in the amount of 250 million euros by the KBC Bank and Insurance Holding Company NV (in 1999) to an ACB (a subordinated, automatically convertible bond loan) issued by KBC Bank NV and maturing in 2006. Since this loan has been eliminated under 'Eliminations' on the assets side and under 'Subordinated liabilities' on the liabilities side, it does not appear, on balance, on either the assets or the liabilities side of the balance sheet.

## Note 11a: Reconciliation of the capital and reserves of KBC Bank, KBC Insurance and the KBC Bank and Insurance Holding Company

The consolidated own funds of the KBC Bank and Insurance Holding Company are lower than the sum of the consolidated own funds of KBC Bank and KBC Insurance stated under the 'Solvency' section, owing to *inter alia*:

- the elimination of intragroup transactions;
- the elimination of treasury shares held by KBC Bank;
- the contribution of the non-consolidated result of the KBC Bank and Insurance Holding Company;
- leveraging at the level of the holding company.

## Note 11b: Goodwill on consolidation

### GOODWILL ON CONSOLIDATION, 2002

| (In thousands of EUR) | Opening balance | Increase in percentage of capital held | Decrease in percentage of capital held | Amounts written off | Adjustment, amortization period | Other movements | Closing balance |
|---|---|---|---|---|---|---|---|
| BANKING | | | | | | | |
| Goodwill on consolidation | | | | | | | |
| Capitalized goodwill (asset side) | 35 711 | 66 059 | 0 | -14 448 | 0 | 191 | 87 514 |
| Negative goodwill (liabilities side) | 3 245 | 0 | 0 | 0 | 0 | 677 | 3 921 |
| Imputed goodwill (liabilities side) | -1 520 413 | 0 | 4 893 | 85 529 | 0 | -678 | -1 430 669 |
| Goodwill via application of the equity method | | | | | | | |
| Capitalized goodwill (asset side) | 0 | 262 820 | 0 | -3 392 | 0 | 68 | 259 496 |
| Negative goodwill (liabilities side) | 4 852 | 0 | 0 | 0 | 0 | 0 | 4 852 |
| Imputed goodwill (liabilities side) | -7 | 0 | 0 | 0 | 0 | 0 | -7 |
| INSURANCE | | | | | | | |
| Goodwill on consolidation | | | | | | | |
| Capitalized goodwill (asset side) | 8 832 | 31 950 | 0 | -2 667 | 0 | 0 | 38 115 |
| Negative goodwill (liabilities side) | 2 505 | 0 | 0 | 0 | 0 | 0 | 2 505 |
| Imputed goodwill (liabilities side) | -8 180 | 0 | 0 | 601 | 0 | 0 | -7 578 |
| Goodwill via application of the equity method | | | | | | | |
| Capitalized goodwill (asset side) | 0 | 683 | 0 | -2 | 0 | 0 | 681 |
| Negative goodwill (liabilities side) | 5 333 | 0 | 0 | 0 | 0 | 0 | 5 333 |
| Imputed goodwill (liabilities side) | -88 851 | 0 | 0 | 7 392 | 0 | 7 | -81 452 |
| HOLDING-COMPANY ACTIVITIES | | | | | | | |
| Goodwill via application of the equity method | | | | | | | |
| Imputed goodwill (liabilities side) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | | | | | | | |
| Capitalized goodwill (asset side) | | | | | | | |
| Banking | 35 711 | 328 880 | 0 | -17 840 | 0 | 259 | 347 010 |
| Insurance | 8 832 | 32 633 | 0 | -2 669 | 0 | 0 | 38 796 |
| Negative goodwill (liabilities side) | 15 934 | 0 | 0 | 0 | 0 | 677 | 16 611 |
| Imputed goodwill (liabilities side) | -1 617 450 | 0 | 4 893 | 93 522 | 0 | -671 | -1 519 707 |



The goodwill paid on acquisitions from 1 January 1999 through 31 December 2001 was deducted directly from capital and reserves (see valuation rules), under a temporary derogation authorized by The Belgian Banking and Finance Commission. The amount of goodwill that has been deducted, after subtracting the relevant theoretical amortization charges, is included under liabilities heading 'Vbis Imputed goodwill on consolidation'. The theoretical amortization of the imputed goodwill on consolidation since 1 January 1999 totalled 93.5 million euros in the 2002 financial year.

Since the temporary derogation referred to above expired on 1 January 2002, goodwill on new acquisitions after 31 December 2001 has been capitalized and amortized over a period of twenty years (in accordance with international practice). In 2001, the theoretical amortization period was changed to twenty years for all goodwill on consolidation that arose between 1 January 1999 and 31 December 2001. The figures for the 1999 and 2000 financial years were not adjusted to take this into account retroactively, the adjusting entries were all made in the 2001 financial year via a shift between the reserves and negative goodwill. Consequently, the capitalized goodwill on consolidation relates to the goodwill that has not yet been written off on acquisitions made prior to 1 January 1999 or after 31 December 2001.

The liabilities heading 'Goodwill on consolidation' contains negative goodwill.

## Note 11 c: Changes in capital and reserves

### CHANGES IN CAPITAL AND RESERVES

| Consolidated capital and reserves (In thousands of EUR) | Opening balance | Capital increase and conversion of MCBs | Retained profit | Write-off of imputed goodwill on consolidation | Adjustment, amortization period | Transfer of the Fund for General Banking Risks | Translation differences | Other movements | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| **2001** | | | | | | | | | |
| Capital | 585 377 | 5 011 | - | - | - | - | - | 0 | 590 388 |
| Share premium account | 1 961 818 | 47 603 | - | - | - | - | - | 0 | 2 009 421 |
| Revaluation reserve | 10 630 | - | - | - | - | - | - | -468 | 10 162 |
| Reserves and profit brought forward | 4 470 521 | - | 574 881 | -88 919 | 76 743 | 1 838 574 | 0 | -733 | 6 871 067 |
| Goodwill on consolidation | 18 219 | - | - | - | - | - | - | -2 285 | 15 934 |
| Imputed goodwill on consolidation | -1 256 299 | - | - | -284 410 | -76 743 | - | - | 0 | -1 617 451 |
| Translation differences | -14 725 | - | - | - | - | - | -12 516 | - | -27 240 |
| **Capital and reserves** | **5 775 542** | **52 613** | **574 881** | **-373 329** | **0** | **1 838 574** | **-12 516** | **-3 486** | **7 852 280** |
| **2002** | | | | | | | | | |
| Capital | 590 388 | 750 | - | - | - | - | - | 0 | 591 138 |
| Share premium account | 2 009 421 | 8 759 | - | - | - | - | - | 0 | 2 018 180 |
| Revaluation reserve | 10 162 | - | - | - | - | - | - | -460 | 9 702 |
| Reserves and profit brought forward | 6 871 067 | - | 573 886 | -93 522 | 0 | 0 | 0 | 4 528 | 7 355 959 |
| Goodwill on consolidation | 15 934 | - | - | - | - | - | - | 677 | 16 611 |
| Imputed goodwill on consolidation | -1 617 451 | - | - | 98 415 | 0 | - | - | -671 | -1 519 707 |
| Translation differences | -27 240 | - | - | - | - | - | -15 711 | - | -42 951 |
| **Capital and reserves** | **7 852 280** | **9 509** | **573 886** | **4 893** | **0** | **0** | **-15 711** | **4 075** | **8 428 932** |

In 2001, KBC transferred the Fund for General Banking Risks (FGBR) to reserves in anticipation of the introduction of IAS 30, when the FGBR will no longer be considered a provision, but part of own funds. The Belgian Banking and Finance Commission has allowed KBC a derogation to carry out this non-recurring transfer directly without having to go via the profit and loss account; this with a view to assuring a true and fair picture is given of the trend in results.

For a detailed overview of the changes in capital, the share premium account and shareholdings, please see the notes to the company accounts.

Christoph Verbiest
Assistant, System Management, Domestic Payments Processing, Credit Transfers & Direct Debits
KBC Bank

*'Working at KBC gives you a status you can be proud of and, compared to other companies, we earn a pretty good living.'*

## Note 11d: Reserves and profit brought forward

### RESERVES AND PROFIT BROUGHT FORWARD

| (In thousands of EUR) | 2001 | 2002 |
|---|---|---|
| Opening balance | 4 470 521 | 6 871 067 |
| ▪ Profit (Group share) | 1 022 352 | 1 034 204 |
| ▪ Dividends | -446 168 | -459 176 |
| ▪ Directors | -1 304 | -1 142 |
| ▪ Theoretical amortization, goodwill on consolidation | -88 919 | -93 522 |
| ▪ Adjustment, amortization period | 76 743 | 0 |
| ▪ Transfer of Fund for General Banking Risks | 1 838 574 | 0 |
| ▪ Other | -733 | 4 528 |
| Closing balance | 6 871 067 | 7 355 959 |

## Note 11e: Statement of own shares

### STATEMENT OF OWN SHARES

| Held in portfolio by | Quantity | As a % of the issued shares | Carrying value (in thousands of EUR) |
|---|---|---|---|
| Centea | 1 000 000 | 0.33% | 18 751 |
| KBC Bank | 154 661 | 0.05% | 4 678 |
| KBC Bank and Insurance Holding Company | 5 397 474 | 1.79% | 225 824 |
| KBC Financial Products Brussels (trading portfolio) | 724 418 | 0.24% | 21 914 |
| KBC Securities (trading portfolio) | 29 900 | 0.01% | 904 |
| Assurisk | 10 000 | 0.00% | 303 |

The KBC Bank and Insurance Holding Company (formerly Kredietbank) shares owned by KBC Insurance and a few of its subsidiaries were in the investment portfolio of KBC Insurance at the time of the merger that led to the establishment of the KBC Group. At the end of 1998, KBC Insurance and its subsidiaries owned 2.97% of the number of KBC Bank and Insurance Holding Company shares; in 2002, KBC Insurance sold the remainder of the KBC Bank and Insurance Holding Company shares it held, which meant it no longer had any of these shares in portfolio at the end of 2002.
The KBC Bank and Insurance Holding Company owns 1.79% of the number of shares issued, as a result of repurchasing its own shares for the KBC stock option plan for staff.

## Note 12: Minority interests, Group

### MINORITY INTERESTS, GROUP

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **1 892 119** | **2 219 123** | **1 967 094** | **-11.4%** |
| Minority interests | 352 304 | 643 310 | 499 957 | -22.3% |
| Preference shares | 1 539 815 | 1 575 812 | 1 467 137 | -6.9% |

Minority interests (in the strict sense of the term, i.e. not including preference shares) went down primarily because of the increased participating interest in Kredyt Bank (Poland) and the Antwerpse Diamantbank.



## Note 13: Subordinated liabilities, Group

### SUBORDINATED LIABILITIES, GROUP

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **6 707 905** | **6 745 978** | **6 285 850** | **-6.8%** |
| Convertible | 864 732 | 786 258 | 725 542 | -7.7% |
| Non-convertible | 5 843 173 | 5 959 720 | 5 560 308 | -6.7% |
| Company | | | | |
| Banking | 7 004 208 | 7 077 732 | 6 620 965 | -6.5% |
| Insurance | 19 336 | 19 336 | 19 336 | 0.0% |
| Eliminations | -315 639 | -351 089 | -354 451 | 1.0% |
| Geographic breakdown, banking | | | | |
| Belgium | 3 429 061 | 3 547 708 | 3 700 081 | 4.3% |
| Abroad | 3 575 146 | 3 530 024 | 2 920 885 | -17.3% |
| Euro zone | 252 038 | 353 230 | 2 606 478 | 637.9% |
| Monetary breakdown, banking | | | | |
| In euros | 6 593 595 | 6 603 976 | 6 201 764 | -6.1% |
| In foreign currency | 410 612 | 473 755 | 419 201 | -11.5% |
| Breakdown according to remaining term to maturity, banking (year maturing) | | | 2003 | 2004 |
| | | | 535 196 | 896 716 |
| | 2005 | 2006 | 2007 | 2008 |
| | 1 835 953 | 896 779 | 518 638 | 415 718 |
| | 2009 | 2010 | 2011 | 2012 |
| | 296 735 | 161 877 | 199 279 | 41 098 |
| | 2013 | 2014 | | Perpetual |
| | 13 693 | 26 509 | | 782 774 |

## Note 14: Fund for General Banking Risks, banking

### FUND FOR GENERAL BANKING RISKS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Opening balance | 1 825 476 | 1 841 379 | 0 | -100.0% |
| ▪ Transfers to the fund | 15 772 | 0 | 0 | - |
| ▪ Translation differences | 131 | 0 | 0 | - |
| ▪ Transfer to the reserves as a result of changes in the valuation rules | 0 | -1 838 574 | 0 | - |
| ▪ Other movements | 0 | -2 804 | 0 | -100.0% |
| Closing balance | 1 841 379 | 0 | 0 | - |

The Fund for General Banking Risks (FGBR) is a contingency fund set up to safeguard the institution’s solvency against future risks inherent in the business of banking which are not determinable at the present time. It is set aside over and above the requisite write-downs and provisions taken on a case-by-case and portfolio basis for loans and advances, securities, liabilities and charges. For the purpose of calculating the regulatory capital adequacy ratio, the FGBR qualifies as tier-1 capital.
At the end of 2001, KBC decided to transfer this fund to ‘reserves’ (see Note 11 c).

## Note 15: Amounts owed to credit institutions, banking

### AMOUNTS OWED TO CREDIT INSTITUTIONS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **41 961 726** | **41 199 589** | **39 683 320** | **-3.7%** |
| Amounts owed as a result of the rediscounting of trade bills | 103 593 | 14 373 | 21 139 | 47.1% |
| Geographic breakdown | | | | |
| Belgium | 9 289 890 | 3 449 404 | 2 266 819 | -34.3% |
| Abroad | 32 671 837 | 37 750 185 | 37 416 501 | -0.9% |
| Euro zone | 12 475 879 | 13 414 693 | 16 270 855 | 21.3% |
| Monetary breakdown | | | | |
| In euros | 25 246 917 | 23 767 826 | 25 589 534 | 7.7% |
| In foreign currency | 16 714 810 | 17 431 763 | 14 093 786 | -19.1% |
| Breakdown according to remaining term to maturity | | | | |
| Repayable on demand | 2 128 257 | 6 077 690 | 2 233 198 | -63.3% |
| With agreed maturity dates or periods of notice | 39 833 470 | 35 121 899 | 37 450 122 | 6.6% |
| Not more than three months | 31 212 689 | 26 096 262 | 28 774 423 | 10.3% |
| More than three months but not more than one year | 4 103 124 | 7 064 573 | 7 922 274 | 12.1% |
| More than one year but not more than five years | 838 387 | 666 518 | 348 750 | -47.7% |
| More than five years | 3 492 407 | 1 262 181 | 379 975 | -69.9% |
| Undated | 186 863 | 32 364 | 24 700 | -23.7% |

## Note 16: Amounts owed to customers and debts represented by securities, banking

### AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **107 176 073** | **131 142 407** | **137 375 260** | **4.8%** |
| Amounts owed to customers | 82 209 413 | 110 097 895 | 113 719 463 | 3.3% |
| Debts represented by securities | 24 966 660 | 21 044 512 | 23 655 798 | 12.4% |
| **Amounts owed to customers** | **82 209 413** | **110 097 895** | **113 719 463** | **3.3%** |
| Geographic breakdown | | | | |
| Belgium | 49 922 799 | 55 199 928 | 58 026 917 | 5.1% |
| Abroad | 32 286 614 | 54 897 967 | 55 692 546 | 1.4% |
| Euro zone | 7 004 099 | 9 753 176 | 9 474 112 | -2.9% |
| Monetary breakdown | | | | |
| In euros | 59 094 348 | 72 193 737 | 81 313 963 | 12.6% |
| In foreign currency | 23 115 066 | 37 904 158 | 32 405 500 | -14.5% |
| Breakdown according to remaining term to maturity | | | | |
| Repayable on demand | 20 829 820 | 26 590 182 | 27 979 650 | 5.2% |
| With agreed maturity dates or periods of notice | 61 379 593 | 83 507 713 | 85 739 813 | 2.7% |
| Not more than three months | 23 551 697 | 41 081 702 | 44 602 277 | 8.6% |
| More than three months but not more than one year | 16 573 257 | 12 768 941 | 11 196 293 | -12.3% |
| More than one year but not more than five years | 2 501 160 | 4 468 787 | 2 361 642 | -47.2% |
| More than five years | 206 800 | 744 515 | 1 685 421 | 126.4% |
| Undated | 18 546 679 | 24 443 768 | 25 894 180 | 5.9% |
| **Debts represented by securities** | **24 966 660** | **21 044 512** | **23 655 798** | **12.4%** |
| Geographic breakdown | | | | |
| Belgium | 9 579 218 | 7 960 632 | 6 819 733 | -14.3% |
| Abroad | 15 387 441 | 13 083 880 | 16 836 065 | 28.7% |
| Euro zone | 7 003 449 | 6 140 206 | 7 257 448 | 18.2% |
| Monetary breakdown | | | | |
| In euros | 14 602 183 | 12 289 034 | 14 541 676 | 18.3% |
| In foreign currency | 10 364 477 | 8 755 478 | 9 114 122 | 4.1% |
| Breakdown according to remaining term to maturity | | | | |
| With agreed maturity dates or periods of notice | 24 966 660 | 21 044 512 | 23 655 798 | 12.4% |
| Not more than three months | 11 366 242 | 5 684 462 | 9 549 369 | 68.0% |
| More than three months but not more than one year | 5 526 613 | 5 144 388 | 2 490 762 | -51.6% |
| More than one year but not more than five years | 7 739 124 | 8 753 275 | 10 524 970 | 20.2% |
| More than five years | 304 492 | 1 441 354 | 1 035 271 | -28.2% |
| Undated | 30 189 | 21 033 | 55 426 | 163.5% |



| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Amounts owed to customers and debts represented by securities, breakdown by type** | **107 176 073** | **131 142 407** | **137 375 260** | **4.8%** |
| Total amounts owed to customers | 82 209 413 | 110 097 895 | 113 719 463 | 3.3% |
| Demand deposits | 16 899 636 | 20 620 544 | 20 800 120 | 0.9% |
| Time deposits | 31 952 445 | 44 890 835 | 37 533 966 | -16.4% |
| Savings deposits | 18 436 743 | 20 172 408 | 24 245 774 | 20.2% |
| Special deposits | 2 317 805 | 2 567 650 | 2 918 115 | 13.6% |
| Other deposits | 12 602 784 | 21 846 458 | 28 221 489 | 29.2% |
| Total debts represented by securities | 24 966 660 | 21 044 512 | 23 655 798 | 12.4% |
| Savings certificates | 8 894 581 | 7 695 938 | 6 694 706 | -13.0% |
| Bonds | 4 522 341 | 5 414 609 | 7 006 960 | 29.4% |
| Certificates of deposit | 11 549 738 | 7 933 966 | 9 954 131 | 25.5% |

| Amounts owed to customers and debts represented by securities, geographic breakdown | | 31-12-2001 | | 31-12-2002 |
|---|---|---|---|---|
| | Belgium | Abroad | Belgium | Abroad |
| **Total amounts owed to customers and debts represented by securities** | **63 160 560** | **67 981 847** | **64 846 650** | **72 528 610** |
| Total amounts owed to customers | 55 199 928 | 54 897 967 | 58 026 917 | 55 692 546 |
| Demand deposits | 11 924 974 | 8 695 570 | 11 218 319 | 9 581 801 |
| Time deposits | 20 798 741 | 24 092 094 | 18 602 954 | 18 931 012 |
| Savings deposits | 19 459 931 | 712 477 | 23 246 972 | 998 802 |
| Special deposits | 489 689 | 2 077 961 | 543 719 | 2 374 396 |
| Other deposits | 2 526 593 | 19 319 865 | 4 414 953 | 23 806 535 |
| Total debts represented by securities | 7 960 632 | 13 083 880 | 6 819 733 | 16 836 065 |
| Savings certificates | 7 655 107 | 40 831 | 6 659 806 | 34 900 |
| Bonds | 153 048 | 5 261 560 | 136 741 | 6 870 219 |
| Certificates of deposit | 152 477 | 7 781 489 | 23 186 | 9 930 945 |

One of the reasons for the sharp rise in savings deposits (+20%) was the successful savings campaign conducted in October 2002 (which helped raise the KBC Group's share of the Belgian market from 19.8% to 21.1%). Naturally, the uncertain stock market climate was also a contributing factor to money being 'parked' temporarily on savings accounts. The negative trend for savings certificates (-13%) continued partly as a result of relatively low long-term interest rates. The increase in bonds and certificates of deposit was largely attributable to a new commercial paper programme at KBC Financial Products and an increase in bonds held at KBC IFIMA.

## Note 17: Provisions and deferred taxes, Group

### PROVISIONS AND DEFERRED TAXES, GROUP

| (In thousands of EUR) 2002 | Opening balance | Allocations | Utilization and write-backs | Total movements with an impact on results | Other movements | Closing balance |
|---|---|---|---|---|---|---|
| **Banking** | | | | | | |
| Pensions | 82 747 | 37 933 | -31 105 | 6 828 | -2 566 | 87 009 |
| Future charges for buildings | 16 124 | 1 832 | -5 012 | -3 180 | 0 | 12 944 |
| Litigation (VAT, legal, other) | 54 412 | 11 140 | -26 715 | -15 575 | 3 546 | 42 383 |
| Operational risks | 80 843 | 2 697 | -921 | 1 775 | 2 279 | 84 898 |
| Restructuring expenses | 24 699 | 55 301 | -20 650 | 34 652 | 17 638 | 76 989 |
| Car leasing | 15 321 | 2 997 | -2 750 | 248 | -2 091 | 13 478 |
| IT, subsidiaries | 11 429 | 0 | -11 429 | -11 429 | 0 | 0 |
| Compulsory purchase of bad loans relating to IPB | 164 376 | 0 | -325 | -325 | -10 345 | 153 706 |
| Other provisions | 70 784 | 6 367 | -23 785 | -17 419 | -15 166 | 38 200 |
| **Subtotal, provisions for liabilities and charges** | **520 735** | **118 266** | **-122 691** | **-4 425** | **-6 705** | **509 606** |
| Taxation | 54 902 | 0 | 0 | 0 | 963 | 55 865 |
| Commitment credit | 86 636 | 27 553 | -23 719 | 3 834 | 1 033 | 91 503 |
| **Total provisions** | **662 273** | **145 819** | **-146 410** | **-591** | **-4 709** | **656 974** |
| Deferred taxes | 5 969 | 61 509 | 0 | 61 509 | 0 | 67 479 |
| **Total provisions and deferred taxes** | **668 242** | **207 328** | **-146 410** | **60 918** | **-4 709** | **724 452** |
| **Insurance** | | | | | | |
| Taxation | 71 052 | 2 936 | -8 418 | -5 483 | -53 244 | 12 325 |
| Restructuring expenses | 25 406 | 1 135 | -4 816 | -3 681 | 0 | 21 724 |
| IT | 1 204 | 0 | -1 105 | -1 105 | 0 | 99 |
| Financial risks | 156 662 | 118 390 | -275 052 | -156 662 | 0 | 0 |
| Other provisions | 8 993 | 5 759 | -4 412 | 1 347 | 0 | 10 340 |
| **Total** | **263 316** | **128 219** | **-293 803** | **-165 584** | **-53 244** | **44 488** |

## Note 18: Other liabilities, banking

### OTHER LIABILITIES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **10 305 020** | **26 134 514** | **14 514 152** | **-44.5%** |
| Accrued charges and deferred income | 6 109 225 | 20 862 891 | 9 628 487 | -53.8% |
| Other | 4 195 794 | 5 271 623 | 4 885 665 | -7.3% |

## Note 19: Technical provisions, insurance

### TECHNICAL PROVISIONS, INSURANCE

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Gross | | | | |
| Technical provisions | 7 101 813 | 7 366 963 | 8 860 576 | 20.3% |
| ▌Provision for unearned premiums and unexpired risk | 188 102 | 203 217 | 225 817 | 11.1% |
| ▌Life assurance provision | 4 497 804 | 4 637 766 | 5 884 296 | 26.9% |
| ▌Provision for claims outstanding | 2 130 761 | 2 217 100 | 2 441 635 | 10.1% |
| ▌Provision for bonuses and rebates | 21 688 | 29 958 | 30 844 | 3.0% |
| ▌Equalization and catastrophe provision | 203 486 | 208 336 | 186 709 | -10.4% |
| ▌Other technical provisions | 59 972 | 70 586 | 91 274 | 29.3% |
| For life assurance policyholders who bear the investment risk | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| Total gross technical provisions | 9 387 781 | 10 319 071 | 11 673 767 | 13.1% |
| Reinsurers' share | | | | |
| Technical provisions | 178 078 | 173 889 | 250 066 | 43.8% |
| ▌Provision for unearned premiums and unexpired risk | 2 932 | 2 851 | 6 621 | 132.3% |
| ▌Life assurance provision | 5 233 | 7 369 | 6 745 | -8.5% |
| ▌Provision for claims outstanding | 166 864 | 161 578 | 234 901 | 45.4% |
| ▌Provision for bonuses and rebates | 0 | 21 | 0 | -100.0% |
| ▌Other technical provisions | 3 049 | 2 070 | 1 798 | -13.1% |
| Total, reinsurers' share | 178 078 | 173 889 | 250 066 | 43.8% |
| Net | | | | |
| Technical provisions | 6 923 735 | 7 193 074 | 8 610 510 | 19.7% |
| ▌Provision for unearned premiums and unexpired risk | 185 171 | 200 366 | 219 195 | 9.4% |
| ▌Life assurance provision | 4 492 570 | 4 630 397 | 5 877 551 | 26.9% |
| ▌Provision for claims outstanding | 1 963 897 | 2 055 522 | 2 206 734 | 7.4% |
| ▌Provision for bonuses and rebates | 21 688 | 29 937 | 30 844 | 3.0% |
| ▌Equalization and catastrophe provision | 203 486 | 208 336 | 186 709 | -10.4% |
| ▌Other technical provisions | 56 923 | 68 516 | 89 476 | 30.6% |
| For life assurance policyholders who bear the investment risk | 2 285 968 | 2 952 108 | 2 813 191 | -4.7% |
| Total net technical provisions | 9 209 703 | 10 145 182 | 11 423 701 | 12.6% |
| Secured by collateral security committed as a charge against the company's assets | 533 264 | 150 236 | 150 483 | 0.2% |

## Note 20: Other liabilities, insurance

### OTHER LIABILITIES, INSURANCE

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Creditors | 342 217 | 347 844 | 422 477 | 21.5% |
| Arising out of direct insurance operations | 87 539 | 91 489 | 150 692 | 64.7% |
| Arising out of reinsurance operations | 24 530 | 14 317 | 50 748 | 254.5% |
| Other creditors | 230 148 | 242 039 | 221 037 | -8.7% |
| Secured by collateral security committed as a charge against the company's assets | 146 869 | 131 513 | 101 867 | -22.5% |
| Accrued charges and deferred income | 3 270 | 18 844 | 14 337 | -23.9% |



## Note 21: Financial liabilities, holding-company activities

In 2002, the financial liabilities of the KBC Bank and Insurance Holding Company NV went up, on balance, by 9% to 1 317 million euros.
See the section on 'Company annual accounts – KBC Bank and Insurance Holding Company NV' below.

## Note 22: Eliminations and relationships with associated companies and with companies linked by participating interests which are not included in the consolidation or eliminated, Group

### ELIMINATIONS AND RELATIONSHIPS WITH ASSOCIATED COMPANIES AND WITH COMPANIES LINKED BY PARTICIPATING INTERESTS WHICH ARE NOT INCLUDED IN THE CONSOLIDATION OR ELIMINATED, GROUP

| (In thousands of EUR) | Between the banking, insurance and holding-company activities | | Associated companies | | Companies linked by participating interests | |
|---|---|---|---|---|---|---|
| | | Eliminations | | Not eliminated | | Not eliminated |
| | 31-12-2001 | 31-12-2002 | 31-12-2001 | 31-12-2002 | 31-12-2001 | 31-12-2002 |
| **ASSETS** | | | | | | |
| BANKING | | | | | | |
| I Loans and advances to credit institutions | 0 | 0 | 432 858 | 124 368 | 544 | 21 735 |
| II Loans and advances to customers | 374 314 | 570 515 | 497 250 | 74 017 | 85 363 | 151 232 |
| III Securities | | | | | | |
| III A Fixed-income | 0 | 0 | 114 485 | 71 753 | 7 790 | 7 205 |
| IV Financial fixed assets | 10 659 | 10 659 | 0 | 2 145 | 0 | 120 000 |
| VII Other assets | 551 | 12 194 | 0 | 0 | 0 | 0 |
| INSURANCE | | | | | | |
| IX Investments | 3 826 | 2 479 | 2 796 | 2 123 | 11 644 | 133 211 |
| XI Debtors | 0 | 0 | 16 129 | 5 630 | 96 | 325 |
| XIII Other assets | 174 075 | 515 901 | 0 | 0 | 0 | 0 |
| HOLDING-COMPANY ACTIVITIES | | | | | | |
| XV Financial fixed assets | 336 604 | 359 134 | 0 | 0 | 0 | 0 |
| XVI Investments and cash at bank and in hand | 94 823 | 211 787 | 0 | 0 | 0 | 0 |
| XVII Other assets | 19 965 | 14 781 | 0 | 0 | 0 | 0 |
| **TOTAL ASSETS** | **1 014 818** | **1 697 451** | **1 063 518** | **280 035** | **105 437** | **433 707** |
| **LIABILITIES** | | | | | | |
| IX Subordinated liabilities | 351 089 | 354 451 | 74 | 6 333 | 0 | 0 |
| BANKING | | | | | | |
| XI Amounts owed to credit institutions | 0 | 0 | 520 354 | 128 059 | 151 | 10 134 |
| XII Amounts owed to customers | 264 213 | 744 253 | 382 163 | 181 076 | 21 264 | 8 896 |
| XV Other liabilities | 24 866 | 16 038 | 0 | 0 | 0 | 0 |
| INSURANCE | | | | | | |
| XX Other liabilities | 64 409 | 71 332 | 13 747 | 13 193 | 161 | 288 |
| HOLDING-COMPANY ACTIVITIES | | | | | | |
| XXII Financial liabilities | 298 415 | 476 048 | 0 | 0 | 0 | 0 |
| XXIII Other liabilities | 11 825 | 35 330 | 0 | 0 | 0 | 0 |
| Subtotal, excluding subordinated liabilities | 663 729 | 1 343 000 | 916 264 | 322 329 | 21 576 | 19 317 |
| **TOTAL LIABILITIES** | **1 014 818** | **1 697 451** | **916 338** | **328 662** | **21 576** | **19 317** |
| **PROFIT AND LOSS ACCOUNT** | | | | | | |
| BANKING | | | | | | |
| C Net commission income | 51 316 | 0 | - | - | - | - |

# NOTES TO THE PROFIT AND LOSS ACCOUNT

## [Results from ordinary activities, banking]

### Note 23: Net interest income, banking

NET INTEREST INCOME, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Net interest income** | **2 294 976** | **2 541 177** | **3 046 115** | **19.9%** |
| Interest receivable and similar income | 10 066 214 | 11 543 950 | 9 501 009 | -17.7% |
| Loans and advances to credit institutions | 1 880 863 | 3 473 399 | 1 259 847 | -63.7% |
| Loans and advances to customers | 5 190 652 | 5 213 999 | 5 205 621 | -0.2% |
| Fixed-income securities, trading portfolio | 273 110 | 309 514 | 538 904 | 74.1% |
| Fixed-income securities, investment portfolio | 2 619 847 | 2 547 039 | 2 496 638 | -2.0% |
| Net result, hedging operations | 101 742 | 0 | 0 | - |
| Interest payable and similar charges | -7 771 238 | -9 002 774 | -6 454 894 | -28.3% |
| Amounts owed to credit institutions | -3 344 205 | -4 298 818 | -1 721 955 | -59.9% |
| Amounts owed to customers | -3 072 350 | -3 089 475 | -3 116 151 | 0.9% |
| Debts represented by securities | -1 009 865 | -1 118 505 | -918 094 | -17.9% |
| Subordinated liabilities | -344 818 | -420 553 | -369 170 | -12.2% |
| Net result, hedging operations | 0 | -75 423 | -329 526 | 336.9% |

For 2002, total net interest income went up by almost 20% (+12% on an organic basis, i.e. excluding changes in the scope of consolidation), with the biggest (organic) increase occurring in the dealing rooms. In Belgium, the commercial interest margin remained unchanged on balance, widening for lending and narrowing for customer deposits. In Central Europe, good growth in net interest income was recorded, although this figure was enhanced by exchange-rate effects and one-off interest revenues in the Czech Republic in the second quarter of 2002.

### Note 24: Income from variable-yield securities, banking

INCOME FROM VARIABLE-YIELD SECURITIES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total income from variable-yield securities** | **142 285** | **120 775** | **157 758** | **30.6%** |
| Shares and other variable-yield securities, trading portfolio | 77 528 | 58 106 | 95 626 | 64.6% |
| Shares and other variable-yield securities, investment portfolio | 37 586 | 43 458 | 37 661 | -13.3% |
| Other income from financial fixed assets | 27 172 | 19 211 | 24 470 | 27.4% |

### Note 25: Profit on financial transactions, banking

PROFIT ON FINANCIAL TRANSACTIONS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **835 851** | **884 770** | **1 013 571** | **14.6%** |
| On the trading of securities and other financial instruments | 590 101 | 609 557 | 615 140 | 0.9% |
| On the disposal of investment securities | 245 751 | 275 213 | 398 432 | 44.8% |
| Fixed-income securities | -30 302 | 215 804 | 374 765 | 73.7% |
| On the securitization of receivables | 4 004 | 2 436 | 10 032 | 311.9% |
| Variable-yield securities | 272 049 | 56 973 | 13 635 | -76.1% |
| ▮ Almanij & KBC Bank and Insurance Holding Company | 26 920 | -1 683 | -33 | - |
| ▮ ING | 24 955 | 2 330 | -1 158 | - |
| ▮ UCB | 1 050 | 924 | -63 | - |
| ▮ Electrabel | 16 755 | 3 698 | 4 551 | - |
| ▮ Fortis | 26 374 | 3 153 | -2 037 | - |
| ▮ Delhaize De Leeuw | 1 756 | 348 | 77 | - |
| ▮ Aegon | 13 039 | 1 324 | -1 796 | - |
| ▮ Solvay | 4 473 | -31 | -4 | - |
| ▮ Colruyt | -3 011 | 0 | 15 | - |
| ▮ Dexia | 4 728 | 1 881 | 746 | - |
| ▮ Philips | 35 953 | -198 | -1 308 | - |
| ▮ Koninklijke KPN | 37 400 | 0 | 36 | - |
| ▮ Royal Dutch | 13 053 | 131 | 0 | - |
| ▮ ABN AMRO | 14 238 | -111 | -339 | - |
| ▮ ASM Lithografy | 10 739 | 0 | 0 | - |
| ▮ Groep Brussel Lambert | 20 156 | 31 263 | 3 869 | - |



| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Vodafone (Mannesmann) | 4 443 | -292 | 0 | - |
| UPC | -4 803 | 0 | 0 | - |
| Numico | 3 155 | 0 | 0 | - |
| VNU | 6 028 | 0 | 0 | - |
| Unilever | -4 658 | 167 | 42 | - |
| Arbed | 0 | 1 083 | 1 612 | - |
| Axa UAP | 0 | 1 995 | 0 | - |
| NPM | 0 | 1 729 | 4 846 | - |
| Prolion Holding | 0 | -2 700 | 0 | - |
| GIMV | 0 | -1 194 | -371 | - |
| Bespar | 0 | 4 794 | 0 | - |
| BNB | 0 | 1 798 | 958 | - |
| Finoutremer | 0 | 5 711 | 0 | - |
| Euronext | 0 | 0 | 25 452 | - |
| Telenet | 0 | 0 | -12 053 | - |
| Vivendi | 0 | 0 | -4 828 | - |
| Other | 19 306 | 854 | -4 579 | - |

The result from currency dealing and securities trading remained more or less unchanged in 2002 (a decline of 4% in organic terms), although a sizeable drop was registered for money and capital market products (though this was without taking higher interest earnings included in the 'Interest receivable and similar income' item into account). Derivatives trading made a very good showing; equity trading experienced a slight decline.
For 2002, realized gains on securities in the investment portfolio were up on balance by almost 45% year-on-year. These gains were realized almost entirely on a bond portfolio that was held specifically to cope with the possibility of a decline in interest rates.

## Note 26: Net commission and other operating income, banking

### NET COMMISSION AND OTHER OPERATING INCOME, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total net commission and other operating income** | **1 335 973** | **1 427 645** | **1 530 845** | **7.2%** |
| Commission receivable | 1 437 967 | 1 465 634 | 1 526 956 | 4.2% |
| Securities and asset management | 847 941 | 765 830 | 776 861 | 1.4% |
| Commitment credit | 103 672 | 129 265 | 127 521 | -1.3% |
| Payments | 180 392 | 247 128 | 324 116 | 31.2% |
| Insurance | 54 415 | 54 360 | 57 614 | 6.0% |
| Other | 251 546 | 269 050 | 240 844 | -10.5% |
| Commission payable | -403 613 | -408 823 | -436 368 | 6.7% |
| Acquisition costs | -96 876 | -92 508 | -87 358 | -5.6% |
| Other commission payable | -306 737 | -316 315 | -349 010 | 10.3% |
| Other operating income | 301 619 | 370 834 | 440 256 | 18.7% |

Net commission income was adversely affected primarily by the poor stock market climate. Income from the securities business and from corporate finance and acquisition transactions proved particularly disappointing, while commissions earned on fund management remained more or less up to par. On the other hand, income from payments grew, particularly in Central Europe.
'Other operating income' rose sharply (+19%) in 2002, thanks largely to non-recurring amounts recovered on securitization operations carried out during the first six months of the year.

## Note 27: Share in the result of participating interests in companies accounted for using the equity method, banking

### SHARE IN THE RESULT OF PARTICIPATING INTERESTS IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD, BANKING

| | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **47 195** | **2 907** | **7 411** | **155.0%** |
| Crédit Commercial de France | 27 855 | 0 | 0 | - |

## Note 28: Details concerning the results, banking

### DETAILS CONCERNING THE RESULTS, BANKING

| (In thousands of EUR) | 31-12-2001 | | 31-12-2002 | |
|---|---|---|---|---|
| | Belgian branches and subsidiaries | Foreign branches and subsidiaries | Belgian branches and subsidiaries | Foreign branches and subsidiaries |
| A Interest receivable and similar income | 6 574 525 | 4 969 425 | 5 754 131 | 3 746 878 |
| B Income from variable-yield securities | | | | |
| 1 From shares and other variable-yield securities | 87 675 | 13 889 | 58 736 | 74 551 |
| 2 From participating interests and shares constituting financial fixed assets | 15 036 | 4 176 | 4 171 | 20 299 |
| C Profit (Loss) on financial transactions | | | | |
| 1 On the trading of securities and other financial instruments | 169 126 | 440 432 | 230 291 | 384 849 |
| 2 On the disposal of investment securities | 271 807 | 3 406 | 388 749 | 9 682 |
| D1 Commission receivable | 869 263 | 596 371 | 816 682 | 710 274 |
| D2 Other operating income | 268 801 | 102 033 | 318 312 | 121 944 |

### GEOGRAPHIC BREAKDOWN OF HEADING 'B2 PARTICIPATING INTERESTS AND SHARES CONSTITUTING FINANCIAL FIXED ASSETS' IN THE PROFIT AND LOSS ACCOUNT

(In thousands of EUR)

| Belgium | Germany | Ireland | UK |
|---|---|---|---|
| 4 172 | 1 069 | 2 780 | 11 |
| **Hungary** | **Luxemburg** | **Netherlands** | **Italy** |
| 677 | 4 824 | 32 | 9 302 |
| **Poland** | **Czech Republic** | **Portugal** | **Total** |
| 212 | 830 | 561 | 24 470 |

## Note 29: General administrative expenses and other charges, banking

### GENERAL ADMINISTRATIVE EXPENSES AND OTHER CHARGES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **General administrative expenses and other charges** | **-3 094 309** | **-3 510 048** | **-3 750 667** | **6.9%** |
| Staff charges | -1 675 340 | -1 842 934 | -1 982 473 | 7.6% |
| Remuneration | -1 234 434 | -1 372 392 | -1 489 477 | 8.5% |
| Employer's social security contributions | -351 453 | -378 128 | -390 299 | 3.2% |
| Other staff charges | -76 895 | -80 846 | -87 973 | 8.8% |
| Retirement and survivors' pensions | -12 559 | -11 568 | -14 724 | 27.3% |
| Other administrative expenses | -1 123 042 | -1 309 586 | -1 348 738 | 3.0% |
| VAT and other levies | -123 119 | -130 835 | -135 244 | 3.4% |
| Other charges | -999 923 | -1 178 751 | -1 213 494 | 2.9% |
| Depreciation, fixed assets | -295 927 | -357 528 | -419 456 | 17.3% |
| Cost/income ratio | 66.5% | 70.5% | 65.2% | - |

There was a noticeable improvement in general administrative expenses in the banking business in 2002. Although overall a roughly 7% increase in costs was recorded year-on-year, this was due entirely to the expansion in the scope of consolidation. On an organic basis, costs fell by almost 1% (with staff charges up by 1%, depreciation/ amortization up by 9%, and other operating charges down by 6%). The cost/income ratio came to 65.2%, a striking improvement on the 70.5% recorded for 2001.
The cost trend in 2002 was partly affected by the expense of modernizing IT systems and the network of bank branches in Central Europe (depreciation charges in that region increased on an organic basis in 2002 by some 40% compared to 2001; the figure has been inflated by the exchange-rate effect) and by the cost-savings realized in the various Group companies, especially in Belgium. At KBC Bank (non-consolidated), costs were down by almost 8%.

## Note 30: Write-downs on and provisions for credit risks, banking

### WRITE-DOWNS ON AND PROVISIONS FOR CREDIT RISKS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Net transfer to the Fund for General Banking Risks | -15 772 | 0 | 0 | - |
| **Write-downs on and provisions for credit risks** | **-241 281** | **-321 383** | **-465 298** | **44.8%** |
| Belgium | -233 724 | -156 238 | -144 046 | -7.8% |
| Abroad | -7 557 | -165 145 | -321 252 | 94.5% |

| Details on increases/decreases in write-downs and provisions for credit risks | | 31-12-2001 | | 31-12-2002 |
|---|---|---|---|---|
| | Belgium | Abroad | Belgium | Abroad |
| **Total write-downs and provisions** | **-156 238** | **-165 145** | **-144 046** | **-321 252** |
| Specific | | | | |
| For irrecoverable and doubtful loans | -86 092 | -96 430 | -134 088 | -206 139 |
| ▮ Write-downs and provisions | -159 043 | -158 229 | -178 974 | -559 383 |
| ▮ Write-backs and transfers from provisions | 72 952 | 61 799 | 44 886 | 353 244 |
| For loans with an uncertain outcome | -79 925 | -131 948 | -11 265 | -170 733 |
| ▮ Write-downs and provisions | -111 577 | -204 994 | -49 333 | -425 842 |
| ▮ Write-backs and transfers from provisions | 31 652 | 73 046 | 38 068 | 255 108 |
| Commitment credit | -572 | 64 290 | 1 307 | -5 141 |
| ▮ Provision | -2 800 | -10 093 | -549 | -27 003 |
| ▮ Transfers from provision | 2 228 | 74 383 | 1 857 | 21 862 |
| General | | | | |
| Credit risks | 10 351 | -7 065 | 0 | 37 095 |
| ▮ Write-downs and provisions | 0 | -36 725 | 0 | -19 399 |
| ▮ Write-backs and transfers from provisions | 10 351 | 29 660 | 0 | 56 494 |
| Country risks | 0 | 6 007 | 0 | 23 666 |
| ▮ Provision | 0 | -174 | 0 | -4 697 |
| ▮ Transfers from provision | 0 | 6 181 | 0 | 28 363 |

In 2002, loan loss provisions increased by 45% to a record high, with the loan loss ratio rising to 0.55%. In Belgium, where lending is mainly to retail customers and medium-sized enterprises, the loan loss ratio comes to just 0.29% (0.32% in 2001). Save for the situation in Poland, loan quality in Central Europe is good. In Hungary, loan losses are relatively limited (loan loss ratio: 0.34%), while in the Czech Republic and Slovakia, amounts were again able to be written back from provisions (loan loss ratio excluding amounts released from provisions: 0.04%). In Poland, major loan loss provisions were charged, owing to the poor economic situation there and the stricter provisioning policy. The loan loss ratio in that country comes to 4.20%.

As to the international (not including Central Europe) loan portfolio, this suffered on account of the worldwide economic slowdown. The loan loss ratio comes to 0.70%, accounted for primarily by the electricity, aviation and telecom sectors (mainly project and structured trade finance and concentrated in the US).

At year-end 2002, the non-performing ratio came to 2.8%. Of the non-performing loans, roughly 63% are covered by (specific) loan loss provisions, and another 8% by general credit provisions.

## Note 31: Write-downs on securities, banking

### WRITE-DOWNS ON SECURITIES, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **-82 321** | **-88 690** | **-202 142** | **127.9%** |
| Fixed-income securities | -28 998 | 583 | -33 671 | - |
| Write-downs | -29 490 | -18 098 | -34 096 | 88.4% |
| Write-backs | 492 | 18 681 | 425 | -97.7% |
| Variable-yield securities | -53 323 | -89 274 | -168 471 | 88.7% |
| Write-downs | -62 313 | -105 854 | -197 321 | 86.4% |
| Write-backs | 8 989 | 16 581 | 28 850 | 74.0% |

Given the developments on the stock markets, net value impairments on the equity investment portfolio in the banking business were recognized to the tune of 168 million euros (this portfolio is valued according to the 'lower of cost and market' principle). The 34 million euros in value impairments on the fixed-income investment portfolio concern primarily perpetual loans and corporate bonds.

## [Results from ordinary activities, insurance]

### Note 32a: Profit on ordinary activities, insurance

#### PROFIT ON ORDINARY ACTIVITIES, INSURANCE

| 31-12-2000 (in thousands of EUR) | Technical account LIFE | Technical account NON-LIFE | Non-technical account | Total |
|---|---|---|---|---|
| Gross premiums earned | 1 885 995 | 818 728 | 0 | 2 704 723 |
| Outward reinsurance premiums | -4 707 | -49 543 | 0 | -54 250 |
| **Earned premiums, net of reinsurance (heading A)** | **1 881 288** | **769 185** | **0** | **2 650 473** |
| Gross claims paid | -629 075 | -550 246 | 0 | -1 179 320 |
| Claims paid, reinsurers' share | 1 428 | 70 607 | 0 | 72 035 |
| Gross provision for claims outstanding | -6 089 | -38 301 | 0 | -44 389 |
| Provision for claims outstanding, reinsurers' share | 558 | -40 781 | 0 | -40 222 |
| Bonuses and rebates, net of reinsurance | 1 084 | -397 | 0 | 687 |
| Other technical provisions | -1 120 507 | -7 985 | 0 | -1 128 492 |
| Other technical income and charges | -2 446 | -12 693 | 0 | -15 139 |
| **Net technical charges (heading B)** | **-1 755 046** | **-579 795** | **0** | **-2 334 841** |
| Investment income | 0 | 0 | 716 258 | 716 258 |
| Value adjustments, unit-linked life assurance | -182 489 | 0 | 0 | -182 489 |
| Investment charges | 0 | 0 | -91 112 | -91 112 |
| Other income and charges (non-technical) | 0 | 0 | -21 855 | -21 855 |
| Allocation to the technical accounts | 326 919 | 200 040 | -526 959 | 0 |
| **Investment income and charges (heading C)** | **144 431** | **200 040** | **76 331** | **420 802** |
| **Results from participating interests accounted for using the equity method (heading D)** | **0** | **0** | **11 460** | **11 460** |
| Net acquisition costs | -86 080 | -216 275 | 0 | -302 355 |
| Administrative expenses | -23 234 | -48 698 | 0 | -71 932 |
| **General administrative expenses (heading E)** | **-109 314** | **-264 974** | **0** | **-374 287** |
| **Amortization of goodwill on consolidation (heading F)** | **0** | **0** | **-1 724** | **-1 724** |
| **Recurring result from ordinary activities** | **161 359** | **124 457** | **86 068** | **371 883** |
| Non-recurring realized gains and losses | 1 101 | 0 | 90 781 | 91 882 |
| Provision for financial risks | 0 | -37 477 | -52 420 | -89 897 |
| Provision for Y2K- and dioxin-related claims | 0 | 29 566 | 0 | 29 566 |
| Change in premium reserve | 0 | 23 285 | 0 | 23 285 |
| Extra equalization and catastrophe provision | 0 | -9 440 | 0 | -9 440 |
| Other | -1 101 | -5 934 | -13 075 | -20 110 |
| **Non-recurring income and charges (headings G and H)** | **0** | **0** | **25 286** | **25 286** |
| **Result from ordinary activities** | **161 359** | **124 457** | **111 354** | **397 169** |

| 31-12-2001 (in thousands of EUR) | Technical account LIFE | Technical account NON-LIFE | Non-technical account | Total |
|---|---|---|---|---|
| Gross premiums earned | 1 694 131 | 876 256 | 0 | 2 570 387 |
| Outward reinsurance premiums | -5 732 | -56 193 | 0 | -61 925 |
| **Earned premiums, net of reinsurance (heading A)** | **1 688 399** | **820 063** | **0** | **2 508 461** |
| Gross claims paid | -535 009 | -533 635 | 0 | -1 068 644 |
| Claims paid, reinsurers' share | 462 | 36 269 | 0 | 36 731 |
| Gross provision for claims outstanding | -17 631 | -63 746 | 0 | -81 377 |
| Provision for claims outstanding, reinsurers' share | 1 025 | -8 070 | 0 | -7 045 |
| Bonuses and rebates, net of reinsurance | -8 239 | 59 | 0 | -8 180 |
| Other technical provisions | -801 292 | -15 206 | 0 | -816 498 |
| Other technical income and charges | -3 651 | -12 236 | 0 | -15 888 |
| **Net technical charges (heading B)** | **-1 364 335** | **-596 564** | **0** | **-1 960 899** |
| Investment income | 0 | 0 | 694 171 | 694 171 |
| Value adjustments, unit-linked life assurance | -369 280 | 0 | 0 | -369 280 |
| Investment charges | 0 | 0 | -58 766 | -58 766 |
| Other income and charges (non-technical) | 0 | 0 | -9 374 | -9 374 |
| Allocation to the technical accounts | 338 463 | 203 275 | -541 738 | 0 |
| **Investment income and charges (heading C)** | **-30 817** | **203 275** | **84 294** | **256 752** |



| 31-12-2001 (in thousands of EUR) | Technical account LIFE | Technical account NON-LIFE | Non-technical account | Total |
|---|---|---|---|---|
| Results from participating interests accounted for using the equity method (heading D) | 0 | 0 | 4 978 | 4 978 |
| Net acquisition costs | -92 169 | -231 369 | 0 | -323 538 |
| Administrative expenses | -27 579 | -55 848 | 0 | -83 427 |
| General administrative expenses (heading E) | -119 748 | -287 216 | 0 | -406 965 |
| Amortization of goodwill on consolidation (heading F) | 0 | 0 | -1 724 | -1 724 |
| Recurring result from ordinary activities | 173 499 | 139 557 | 87 548 | 400 604 |
| Non-recurring realized gains and losses | 0 | 0 | 37 165 | 37 165 |
| Provision for financial risks | 0 | 0 | -29 377 | -29 377 |
| Non-recurring income and charges (headings G and H) | 0 | 0 | 7 788 | 7 788 |
| Result from ordinary activities | 173 499 | 139 557 | 95 336 | 408 392 |

| 31-12-2002 (in thousands of EUR) | Technical account LIFE | Technical account NON-LIFE | Non-technical account | Total |
|---|---|---|---|---|
| Gross premiums earned | 2 247 948 | 996 882 | 0 | 3 244 829 |
| Outward reinsurance premiums | -2 306 | -86 590 | 0 | -88 896 |
| Earned premiums, net of reinsurance (heading A) | 2 245 642 | 910 291 | 0 | 3 155 934 |
| Gross claims paid | -788 089 | -615 638 | 0 | -1 403 727 |
| Claims paid, reinsurers' share | 941 | 64 623 | 0 | 65 564 |
| Gross provision for claims outstanding | -21 523 | -153 365 | 0 | -174 887 |
| Provision for claims outstanding, reinsurers' share | -281 | 50 730 | 0 | 50 449 |
| Bonuses and rebates, net of reinsurance | -552 | -77 | 0 | -629 |
| Other technical provisions | -809 706 | 13 576 | 0 | -796 129 |
| Other technical income and charges | -3 717 | -10 902 | 0 | -14 619 |
| Net technical charges (heading B) | -1 622 927 | -651 052 | 0 | -2 273 978 |
| Investment income | 0 | 0 | 759 218 | 759 218 |
| Value adjustments, unit-linked life assurance | -679 777 | 0 | 0 | -679 777 |
| Investment charges | 0 | 0 | -101 823 | -101 823 |
| Other income and charges (non-technical) | 0 | 0 | -10 797 | -10 797 |
| Allocation to the technical accounts | 401 174 | 211 974 | -613 148 | 0 |
| Investment income and charges (heading C) | -278 604 | 211 974 | 33 450 | -33 180 |
| Results from participating interests accounted for using the equity method (heading D) | 0 | 0 | 3 543 | 3 543 |
| Net acquisition costs | -112 332 | -249 239 | 0 | -361 571 |
| Administrative expenses | -36 947 | -58 022 | 0 | -94 969 |
| General administrative expenses (heading E) | -149 278 | -307 262 | 0 | -456 540 |
| Amortization of goodwill on consolidation (heading F) | 0 | 0 | -2 669 | -2 669 |
| Recurring result from ordinary activities | 194 833 | 163 952 | 34 324 | 393 110 |
| Non-recurring realized gains and losses | 0 | 0 | 112 960 | 112 960 |
| Amounts recoverable from third parties | 0 | 45 007 | 0 | 45 007 |
| Value adjustments | 0 | 0 | -298 663 | -298 663 |
| Senescence reserves | 12 046 | -18 529 | 0 | -6 482 |
| Provision for financial risks | -12 046 | -26 478 | 195 186 | 156 662 |
| Non-recurring income and charges (headings G and H) | 0 | 0 | 9 483 | 9 483 |
| Result from ordinary activities | 194 833 | 163 952 | 43 807 | 402 593 |

## Recurring versus non-recurring

Non-recurring income and non-recurring charges are components of the results linked to the ordinary activities of the insurance business, but which are one-off in nature. Non-recurring income comprises the capital gains which are considered as non-recurring and which are realized on shares and their application for setting aside (usually) extra non-recurring provisions. Recurring income from the equity portfolio is defined as the product of the 'historical normalized return' and the 'historical normalized market value'. The 'historical normalized return' is the average return expected on the equity portfolio held over the past ten years, while the 'historical normalized market value' is the average market value of the equity portfolio held over the past ten years. If the difference between dividends that are actually received plus realized gains and the recurring income that has been calculated is positive, it is booked as non-recurring income. If the difference is negative, the deficit is drawn from the provision for financial risks.

## Note 32b: Gross written premiums, life assurance

### GROSS WRITTEN PREMIUMS, LIFE ASSURANCE

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Total** | **1 885 719** | **1 693 848** | **2 247 280** | **32.7%** |
| Accepted business | 18 682 | 27 006 | 16 759 | -37.9% |
| Direct business | 1 867 037 | 1 666 842 | 2 230 521 | 33.8% |
| Individual versus group | | | | |
| Individual premiums (incl. unit-linked life assurance) | 1 761 864 | 1 550 113 | 2 081 959 | 34.3% |
| Premiums under group contracts | 105 172 | 116 729 | 148 562 | 27.3% |
| Periodic versus single | | | | |
| Periodic premiums | 390 925 | 487 197 | 540 672 | 11.0% |
| Single premiums | 1 476 112 | 1 179 645 | 1 689 849 | 43.3% |
| Non-bonus versus bonus contracts and unit-linked life assurance | | | | |
| Premiums from non-bonus contracts | 94 770 | 99 676 | 118 321 | 18.7% |
| Premiums from bonus contracts | 313 705 | 338 003 | 1 141 539 | 237.7% |
| Premiums from contracts where the investment risk is not borne by the company (class 23) | 1 458 562 | 1 229 163 | 970 662 | -21.0% |
| Reinsurance balance | -1 022 | -670 | -1 208 | 80.3% |
| Commissions | -53 106 | -53 874 | -62 878 | 16.7% |

Premium income increased by roughly one-third in 2002 (up 27% on an organic basis), with 43% of premium income accounted for by unit-linked life assurance and 57% by other products.

Compared to 2001, there was a more than threefold increase in premium volume generated by sales of products offering a guaranteed interest rate, particularly during the first six months of the year. However, sales were deliberately curtailed from the third quarter on, because of the low level of interest rates. Sales of unit-linked products were down 21% on the year-earlier figure, which was accounted for by customers' aversion to risk. The network of bank branches generated 81% of the premium income in the life business, the network of KBC agents 12% and independent brokers 7%.

## Note 32c: Overview, non-life business

### OVERVIEW, NON-LIFE BUSINESS

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Gross premiums earned | 818 728 | 876 256 | 996 882 | 13.8% |
| Gross claims incurred[1] | -588 546 | -597 381 | -769 002 | 28.7% |
| Gross operating expenses[2] | -275 673 | -297 446 | -322 690 | 8.5% |
| Reinsurance balance[3] | -8 257 | -18 742 | 42 751 | - |
| Subtotal, non-life results (for a more detailed breakdown, see below) | -53 748 | -37 313 | -52 060 | 39.5% |
| Other technical provisions | -9 143 | -14 169 | 14 940 | - |
| Other technical income and charges | -12 693 | -12 236 | -10 902 | -10.9% |
| Investment income and charges | 200 040 | 203 275 | 211 974 | 4.3% |
| Balance of the technical account, non-life | 124 457 | 139 557 | 163 952 | 17.5% |

1 Gross claims paid + provision for claims outstanding.
2 General administrative expenses and acquisition costs (with no deduction of reinsurance commission and profit participation).
3 Reinsurers' share of technical charges - outward reinsurance premiums + commission received from reinsurers and bonuses.

Premium income rose by 11% (up 7% on an organic basis), with Belgium accounting for 4% of (organic) premium growth, the Central European insurance companies for 58% and reinsurance activities for 6%. In Belgium, the strongest growth was recorded in fire insurance; in Central Europe, Hungary (Argosz) recorded the highest premium growth. The network of KBC agents accounted for 69% of premium income from non-life products, independent brokers generated 23% and the network of bank branches was good for 8%.

The loss ratio for the insurance group rose to 71.8% (+2.4 percentage points). Despite the storm damage in October, the loss ratio for direct business in Belgium came to 65.3% (without the storm damage, it would have been 62.6%), which is just 1.4 percentage points higher than in 2001. After claims following the August floods, the non-life insurance business in Central Europe and the reinsurance activities ended up with loss ratios of 78.7% (a sharp rise of 15 percentage points) and 89.2% (a 1-percentage-point increase), respectively. The expense ratio for the full year 2002 amounted to 33.3%, down 1.1 percentage points on the year-earlier figure.

Due to the inclement weather conditions in the second half of 2002, the combined ratio for the insurance group climbed to 105.1% for the year, compared with 103.8% in 2001. The ratio for the direct non-life business in Belgium amounted to 100.2%, which is in line with the very good figure for 2001 (100.0%).



**RESULTS PER CLASS OF BUSINESS**

| | Gross premiums earned | Gross claims incurred | Gross operating expenses | Reinsurance balance | Total |
|---|---|---|---|---|---|
| **2001** | | | | | |
| **Total** | **876 256** | **-597 380** | **-297 446** | **-18 742** | **-37 313** |
| Accepted business | 205 599 | -177 774 | -60 177 | -12 989 | -45 340 |
| Direct business | 670 657 | -419 607 | -237 269 | -5 753 | 8 027 |
| 1 Accident & Health (classes 1 & 2, excl. industrial accidents) | 68 953 | -40 387 | -25 529 | -1 047 | 1 989 |
| 2 Industrial accidents (class 1) | 64 550 | -46 379 | -14 411 | -1 064 | 2 695 |
| 3 Motor, third-party liability (class 10) | 193 837 | -154 149 | -62 977 | 2 286 | -21 003 |
| 4 Motor, other classes (classes 3, 7) | 71 409 | -40 172 | -24 475 | 78 | 6 840 |
| 5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 1 790 | -1 208 | -761 | -77 | -256 |
| 6 Fire and other damage to property (classes 8, 9) | 187 103 | -82 176 | -76 686 | -1 919 | 26 322 |
| 7 General third-party liability (class 13) | 50 846 | -33 163 | -21 699 | -3 064 | -7 081 |
| 8 Credit and suretyship (classes 14, 15) | 381 | -6 | -13 | -945 | -583 |
| 9 Miscellaneous pecuniary losses (class 16) | 1 854 | -534 | -704 | 0 | 616 |
| 10 Legal assistance (class 17) | 26 561 | -19 552 | -8 714 | 0 | -1 705 |
| 11 Assistance (class 18) | 3 375 | -1 881 | -1 302 | 0 | 192 |
| **2002** | | | | | |
| **Total** | **996 882** | **-769 002** | **-322 690** | **42 751** | **-52 060** |
| Accepted business | 206 656 | -172 200 | -60 462 | -9 442 | -35 448 |
| Direct business | 790 225 | -596 802 | -262 228 | 52 193 | -16 612 |
| 1 Accident & Health (classes 1 & 2, excl. industrial accidents) | 76 646 | -46 431 | -28 327 | -264 | 1 624 |
| 2 Industrial accidents (class 1) | 64 290 | -39 384 | -14 530 | 506 | 10 882 |
| 3 Motor, third-party liability (class 10) | 233 763 | -185 385 | -69 725 | 1 546 | -19 801 |
| 4 Motor, other classes (classes 3, 7) | 101 689 | -62 164 | -31 481 | -3 535 | 4 509 |
| 5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 4 129 | -2 966 | -1 174 | -30 | -41 |
| 6 Fire and other damage to property (classes 8, 9) | 217 792 | -202 163 | -82 227 | 57 745 | -8 853 |
| 7 General third-party liability (class 13) | 57 224 | -36 968 | -23 754 | -3 486 | -6 985 |
| 8 Credit and suretyship (classes 14, 15) | 225 | 42 | -42 | -949 | -725 |
| 9 Miscellaneous pecuniary losses (class 16) | 2 614 | -2 017 | -911 | 661 | 347 |
| 10 Legal assistance (class 17) | 27 730 | -16 799 | -8 548 | 0 | 2 382 |
| 11 Assistance (class 18) | 4 124 | -2 568 | -1 508 | 0 | 48 |

## Note 32d: Overview

**OVERVIEW**

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Recurring technical result, Life | 161 359 | 173 499 | 194 833 | 12.3% |
| Recurring technical result, Non-life | 124 457 | 139 557 | 163 952 | 17.5% |
| Recurring non-technical result | 86 068 | 87 548 | 34 324 | -60.8% |
| Recurring result from ordinary activities | 371 883 | 400 604 | 393 110 | -1.9% |
| Non-recurring result | 25 286 | 7 788 | 9 483 | 21.8% |
| Result from ordinary activities | 397 169 | 408 392 | 402 593 | -1.4% |

Non-technical result:

The non-technical result was 61% lower than the 2001 figure, due to the generally lower level of investment income. The contribution made by Group companies accounted for via the equity method remained more or less unchanged.

Non-recurring result:

In order to get a better insight into the results, income and charges specific to ordinary activities that are of a non-recurring nature are presented separately under the 'Non-recurring result' heading.

For the year as a whole, non-recurring income offset non-recurring charges (including the value impairments recognized on the equity portfolio), the balance coming to 9 million euros. The annual result was influenced by the following factors:

- In preparation for the application of the IAS/IFRS reporting standards, a package of KBC shares in the investment portfolio was sold during the fourth quarter. This will prevent these shares from having to be deducted from equity under the new system and adversely affecting the solvency ratio as a result. Partly as a result of this operation, the historical normalized return on the equity portfolio has been exceeded, and these gains are therefore treated as non-recurring.
- In 2002, lasting (unrealized) value impairments came to 299 million euros.
- The negative value adjustments made to the equity portfolio were largely offset during the first nine months of 2002 by amounts drawn from the existing provision for financial risks (157 million euros), which had been set aside to cushion such fluctuations in value. This provision was utilized in full at the end of September 2002.

HANNA WINCZEWSKA
Credit Adviser, Credit Risk Department
Kredyt Bank, Poland

*'Spurred on by KBC, my bank is putting more and more emphasis on quality. And that is sure to lead to great results.'*

- The non-recurring result also included a one-off catch-up entry (45 million euros) in the third quarter for 'Amounts recoverable from third parties'. Up to and including the second quarter of 2002, a loss recovered from third parties was only recognized when the amount in question was received. In preparation for the switch to the IAS/IFRS reporting method, these amounts have been booked as receivables from the third quarter of 2002 on and also included immediately in the results, which is in keeping with general practice in the sector.
- An evaluation of the reserve requirements led to an additional 6 million euros being allocated to the 'senescence reserve', which has been set up to deal with the increased life expectancy of the population.

## Note 32e: Investment income and charges

### INVESTMENT INCOME AND CHARGES

| (In thousands of EUR) | Income and charges | Value adjust-ments | Gains and losses | Total |
|---|---|---|---|---|
| **2001** | | | | |
| **Total, excluding management charges** | **495 010** | **-400 672** | **183 549** | **277 887** |
| Land and buildings | 19 291 | -10 312 | 0 | 8 979 |
| Participating interests in companies accounted for using the equity method | 0 | 4 978 | 0 | 4 978 |
| Shares and other variable-yield securities | 128 126 | -30 797 | 183 549 | 280 878 |
| Bonds and other fixed-income securities | 321 012 | -37 | 0 | 320 974 |
| Participation in investment pools | 2 069 | 0 | 0 | 2 069 |
| Loans guaranteed by mortgages and other loans | 12 514 | 94 | 0 | 12 608 |
| Deposits with ceding companies | 5 682 | 0 | 0 | 5 682 |
| Investments for the benefit of life assurance policyholders who bear the investment risk | 17 530 | -369 280 | 0 | -351 750 |
| Other investments | -11 213 | 266 | 0 | -10 947 |
| Result from currency translation | 0 | 4 415 | 0 | 4 415 |
| **Management charges** | | | | **-8 507** |
| **Total, including management charges** | | | | **269 380** |
| **2002** | | | | |
| **Total, excluding management charges** | **487 467** | **-695 532** | **197 971** | **-10 094** |
| Land and buildings | 19 251 | -9 702 | 0 | 9 549 |
| Participating interests in companies accounted for using the equity method | 0 | 3 543 | 0 | 3 543 |
| Shares and other variable-yield securities | 89 642 | -909 | 197 971 | 286 704 |
| Bonds and other fixed-income securities | 352 940 | 811 | 0 | 353 751 |
| Participation in investment pools | 3 043 | 0 | 0 | 3 043 |
| Loans guaranteed by mortgages and other loans | 11 476 | 79 | 0 | 11 555 |
| Deposits with ceding companies | 5 213 | 0 | 0 | 5 213 |
| Investments for the benefit of life assurance policyholders who bear the investment risk | 18 108 | -679 777 | 0 | -661 669 |
| Other investments | -12 206 | -1 680 | 0 | -13 886 |
| Result from currency translation | 0 | -7 897 | 0 | -7 897 |
| **Management charges** | | | | **-11 416** |
| **Total, including management charges** | | | | **-21 510** |



## REALIZED GAINS ON SHARES

| | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| Société Générale | 0 | 4 616 | 7 047 |
| L'Oréal | 0 | 2 191 | 3 563 |
| TotalFina | 0 | 8 752 | 3 884 |
| Almanij | -10 312 | 21 210 | 31 529 |
| ASML Holding | 0 | 0 | 5 745 |
| Fortis | 15 691 | 4 122 | -2 609 |
| ING | 2 058 | 0 | 0 |
| ST Microelectronics | 0 | 13 945 | 0 |
| Mannesmann | 65 265 | 0 | 0 |
| Colruyt | 0 | 0 | 7 373 |
| UCB | 2 776 | 0 | 0 |
| Solvay | 0 | 0 | 5 702 |
| Financière d'Obourg | 0 | 0 | 3 265 |
| Siemens | 0 | 0 | 4 314 |
| SOCIETE IMMOBILIERE MARSEILLAISE | 0 | 0 | 2 739 |
| Unilever | 0 | 0 | 2 278 |
| KBC Bank and Insurance Holding Company | -4 289 | 10 373 | 140 172 |
| Royal Dutch | 0 | 0 | 4 662 |
| Pinault Printemps | 0 | 4 436 | 0 |
| BNP | 0 | 3 087 | 631 |
| Sanofi | 0 | 2 952 | 0 |
| CCF | 108 206 | 0 | 0 |
| Hagemeyer | -5 825 | 0 | 0 |
| Skandia Fosakrings | 15 642 | 0 | 0 |
| Copeba | 13 758 | 0 | 0 |
| Secura | 0 | 2 900 | 0 |
| BGL | 6 445 | 0 | 0 |
| Suez Lyonnaise des Eaux | 5 255 | 0 | 1 556 |
| Telenet | 0 | 34 970 | 0 |
| Aventis | 0 | 7 605 | 4 091 |
| Nokia | 0 | 2 879 | 0 |
| Delhaize De Leeuw | 0 | 5 118 | -4 039 |
| Crédit Lyonnais | 0 | 3 416 | 1 996 |
| Arbed | 0 | 2 590 | 0 |
| GBL | 0 | 8 180 | 5 350 |
| Deutsche Bank | 0 | 3 025 | 2 308 |
| BASF | 0 | 0 | 2 250 |
| Ahold | 0 | 0 | 1 979 |
| COMPAGNIE DE SAINT-GOBAIN | 0 | 0 | 1 957 |
| GIB | 0 | 0 | 3 000 |
| Akzo Nobel | 0 | 0 | 1 709 |
| Mobistar | 0 | 0 | 6 026 |
| Bekaert | 0 | 0 | 4 949 |
| KBC Life Top | 0 | 0 | 235 |
| Sofina | 0 | 0 | 1 372 |
| VNU | 0 | 0 | 1 284 |
| Eni | 0 | 0 | 1 208 |
| Nationale Bank van België | 0 | 0 | 1 129 |
| The Royal Bank of Scotland | 0 | 0 | 1 067 |
| Unibal | 0 | 0 | 1 276 |
| Commerzbank | 0 | 0 | -1 024 |
| Tibotec-Virco | 0 | 0 | -775 |
| Electrabel | 0 | 0 | -547 |
| Numico | 0 | 0 | -688 |
| Sonera OYJ | 0 | 0 | -6 178 |
| Immobiliën Vennootschap van België | 0 | 0 | -638 |
| SCOR | 0 | 0 | -567 |
| Oracle Corporation | 0 | 0 | 1 664 |
| Other | 39 950 | 51 060 | 19 550 |

## [Result from ordinary activities of the holding company]

### Note 33: Profit on ordinary activities, holding company

Echoing the result achieved last year, a loss was recorded on the holding-company activities, due to debt-servicing charges and the operating expenses incurred by the Group for external communication, among other things.

## [Extraordinary results and taxes]

### Note 34: Extraordinary results, Group

**EXTRAORDINARY RESULTS, GROUP**

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| **Extraordinary results** | **698 906** | **77 736** | **4 153** | **-94.7%** |
| Extraordinary results, banking | 693 171 | 79 455 | 12 347 | -84.5% |
| Extraordinary write-downs and depreciation (and write-backs) on fixed assets | -29 696 | -13 008 | -21 056 | 61.9% |
| Gains and losses realized on the disposal of tangible fixed assets | 2 171 | -6 163 | 3 928 | - |
| Gains and losses realized on the disposal of financial fixed assets | 712 641 | 99 776 | 29 953 | -70.0% |
| ▪ Kredietbank SA Luxembourgeoise | 62 910 | 0 | 0 | - |
| ▪ KBC Securities Nederland | 0 | 0 | -10 848 | - |
| ▪ Crédit Commercial de France | 644 206 | 0 | 0 | - |
| ▪ Telenet | 0 | 80 683 | 0 | - |
| ▪ Clearstream International | 0 | 0 | 40 866 | - |
| ▪ Other | 5 525 | 19 093 | -65 | - |
| Other extraordinary income and charges | 8 055 | -1 150 | -478 | -58.5% |
| Extraordinary results, insurance | -5 245 | -1 719 | -8 194 | 376.7% |
| Amortization, intangible fixed assets | 0 | 0 | -5 922 | - |
| Restructuring provisions | -4 271 | -3 879 | -2 543 | -34.4% |
| Other extraordinary income and charges | -974 | 2 160 | 271 | -87.5% |
| Extraordinary results, holding-company activities | 10 980 | 0 | 0 | - |
| On the disposal of financial fixed assets (CCF) | 10 980 | 0 | 0 | - |

On balance, the extraordinary result in 2002 amounted to just 4 million euros, noticeably less than the year-earlier figure, which had been favourably influenced by *inter alia* the realized gain on the sale of the participating interest in Telenet.

### Note 35: Taxes, Group

Taxes for the year were appreciably higher (up 40% on the 2001 figure) as a result of the high level of taxable capital gains on bonds in the banking business and the increase in non-deductible write-downs and provisions, in general.

# NOTES TO THE OFF-BALANCE-SHEET HEADINGS

## Note 36: Off-balance-sheet headings, banking

### OFF-BALANCE-SHEET HEADINGS, BANKING

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| 1 Contingent liabilities | 15 621 467 | 15 818 915 | 15 509 231 | -2.0% |
| A Non-negotiated acceptances | 39 726 | 35 265 | 57 454 | 62.9% |
| B Guarantees in the nature of direct credit substitutes | 6 350 499 | 6 694 224 | 5 879 207 | -12.2% |
| C Other guarantees | 7 936 666 | 8 108 579 | 8 489 870 | 4.7% |
| D Documentary credits | 737 431 | 811 888 | 854 756 | 5.3% |
| E Assets charged as collateral security on behalf of third parties | 557 145 | 168 958 | 227 944 | 34.9% |
| 2 Commitments which could give rise to a credit risk | 49 346 910 | 46 471 078 | 40 001 975 | -13.9% |
| A Firm credit commitments | 3 609 548 | 635 907 | 1 821 013 | 186.4% |
| B Commitments arising from spot purchases of securities | 253 165 | 1 583 559 | 1 022 365 | -35.4% |
| C Undrawn margin on confirmed credit lines | 45 390 249 | 44 221 898 | 37 115 545 | -16.1% |
| D Underwriting and placing commitments | 93 948 | 29 714 | 43 051 | 44.9% |
| 3 Assets lodged with the companies included in the consolidation | 92 434 244 | 89 250 955 | 88 089 318 | -1.3% |
| A Assets held for fiduciary purposes | 1 197 365 | 1 662 615 | 2 044 944 | 23.0% |
| B Safe custody and equivalent items | 91 236 879 | 87 588 340 | 86 044 374 | -1.8% |
| 4 Uncalled share capital | 28 068 | 4 232 | 1 030 | -75.7% |

| Company (2002) | Associated companies | Companies linked by participating interests | Other | Total |
|---|---|---|---|---|
| **Banking** | **372** | **0** | **658** | **1 030** |
| Resiterra | 372 | 0 | 0 | 372 |
| African Export-Import Bank | 0 | 0 | 572 | 572 |
| IDETA | 0 | 0 | 1 | 1 |
| ModeNatie | 0 | 0 | 80 | 80 |
| MTS Belgium | 0 | 0 | 5 | 5 |

5 Forward off-balance-sheet transactions in securities, foreign currencies and other financial instruments (insurance business included) (in thousands of EUR)

| 31-12-2001 | Notional amounts | Remaining term to maturity | | | Replacement value | | Potential future credit exposure |
|---|---|---|---|---|---|---|---|
| | | ≤ 1 year | 1-5 years | ≥ 5 years | Positive | Negative | |
| **NON-TRADING** | | | | | | | |
| **Derivatives** | **99 320 976** | **76 286 422** | **16 550 956** | **6 483 598** | **826 749** | **-739 966** | **427 677** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 8 827 422 | 8 050 156 | 760 241 | 17 025 | 129 448 | -63 344 | 119 790 |
| Currency and interest rate swaps | 2 011 550 | 1 084 741 | 764 899 | 161 910 | 102 104 | -54 583 | 61 236 |
| Options | 61 363 | 36 355 | 25 008 | 0 | 0 | 0 | 1 614 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 81 852 118 | 62 419 766 | 13 953 511 | 5 478 841 | 582 767 | -619 872 | 151 950 |
| Forward rate agreements | 781 144 | 781 144 | 0 | 0 | 8 242 | -245 | 0 |
| Interest rate futures | 3 869 506 | 3 430 887 | 436 219 | 2 400 | 2 667 | -1 860 | 2 217 |
| Interest rate options | 383 278 | 378 278 | 0 | 5 000 | 63 | -63 | 75 |
| Other contracts | | | | | | | |
| Share options | 1 534 594 | 105 094 | 611 079 | 818 423 | 1 457 | 0 | 90 794 |

DIETER VANMELDERT
Information Manager, Life Companies Production
KBC Insurance

*'KBC dares to ask its employees for their opinions about personnel policy and takes them into account.'*

| 31-12-2001 | Notional amounts | Remaining term to maturity ≤ 1 year | 1-5 years | ≥ 5 years | Replacement value Positive | Negative | Potential future credit exposure |
|---|---|---|---|---|---|---|---|
| **TRADING** | | | | | | | |
| **Derivatives** | **551 592 660** | **282 243 345** | **179 968 043** | **89 381 272** | **10 181 626** | **-10 205 662** | **7 604 500** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 59 330 722 | 57 622 975 | 1 651 741 | 56 005 | 1 226 509 | -1 215 652 | 663 017 |
| Currency and interest rate swaps | 10 864 926 | 4 337 637 | 4 375 352 | 2 151 937 | 475 594 | -354 022 | 423 539 |
| Options | 10 579 527 | 10 184 647 | 394 880 | 0 | 102 410 | -91 677 | 121 590 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 311 361 152 | 125 327 509 | 110 144 986 | 75 888 657 | 6 608 367 | -6 069 082 | 1 689 055 |
| Forward rate agreements | 15 396 344 | 13 534 789 | 1 861 555 | 0 | 15 967 | -24 093 | 9 308 |
| Interest rate futures | 19 203 472 | 17 541 297 | 1 654 232 | 7 943 | 7 802 | -8 254 | 8 390 |
| Interest rate options | 60 621 807 | 12 178 546 | 39 779 924 | 8 663 337 | 381 445 | -360 288 | 328 874 |
| Other contracts | | | | | | | |
| Share options | 63 050 234 | 40 331 469 | 20 105 373 | 2 613 392 | 1 360 431 | -2 079 423 | 4 289 657 |
| Futures transactions | 1 184 476 | 1 184 476 | 0 | 0 | 3 102 | -3 172 | 71 069 |
| **TOTAL, TRADING AND NON-TRADING** | | | | | | | |
| **Derivatives** | **650 913 636** | **358 529 767** | **196 519 000** | **95 864 870** | **11 008 375** | **-10 945 628** | **8 032 176** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 68 158 144 | 65 673 131 | 2 411 982 | 73 030 | 1 355 957 | -1 278 995 | 782 808 |
| Currency and interest rate swaps | 12 876 475 | 5 422 378 | 5 140 250 | 2 313 847 | 577 699 | -408 605 | 484 775 |
| Options | 10 640 891 | 10 221 002 | 419 889 | 0 | 102 410 | -91 677 | 123 204 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 393 213 270 | 187 747 275 | 124 098 497 | 81 367 498 | 7 191 134 | -6 688 954 | 1 841 005 |
| Forward rate agreements | 16 177 488 | 14 315 933 | 1 861 555 | 0 | 24 209 | -24 339 | 9 308 |
| Interest rate futures | 23 072 978 | 20 972 184 | 2 090 451 | 10 343 | 10 469 | -10 114 | 10 607 |
| Interest rate options | 61 005 085 | 12 556 824 | 39 779 924 | 8 668 337 | 381 507 | -360 351 | 328 949 |
| Other contracts | | | | | | | |
| Share options | 64 584 828 | 40 436 563 | 20 716 452 | 3 431 814 | 1 361 888 | -2 079 423 | 4 380 452 |
| Futures transactions | 1 184 476 | 1 184 476 | 0 | 0 | 3 102 | -3 172 | 71 069 |
| Breakdown by counterparty type | | | | | | | |
| Government | 55 888 887 | 51 117 833 | 4 075 576 | 695 479 | 73 601 | -62 369 | 420 091 |
| Financial institutions | 499 446 719 | 272 811 919 | 154 044 281 | 72 590 518 | 6 546 658 | -9 055 726 | 4 841 153 |
| Other | 95 578 030 | 34 600 015 | 38 347 923 | 22 157 451 | 4 388 116 | -1 827 532 | 2 770 932 |

| Impact on the results of the derogation from the valuation rule laid down in Article 36bis §2, regarding forward interest rate transactions | Amount as at year-end | Difference between market value and carrying value |
|---|---|---|
| Categories of forward interest rate transactions | | |
| For the purpose of treasury management | 56 735 223 | -13 014 |
| For the purpose of ALM | 11 110 503 | -131 262 |



| 31-12-2002 | Notional amounts | Remaining term to maturity ≤ 1 year | 1-5 years | ≥ 5 years | Replacement value Positive | Negative | Potential future credit exposure |
|---|---|---|---|---|---|---|---|
| **NON-TRADING** | | | | | | | |
| **Derivatives** | **94 303 313** | **72 589 747** | **15 883 499** | **5 830 067** | **1 550 027** | **-1 816 559** | **399 266** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 11 044 425 | 10 423 551 | 606 865 | 14 010 | 230 410 | -200 129 | 135 629 |
| Currency and interest rate swaps | 1 968 990 | 1 027 195 | 622 611 | 319 184 | 55 318 | -124 271 | 65 341 |
| Options | 134 351 | 107 660 | 26 691 | 0 | 0 | 0 | 2 411 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 77 631 339 | 58 467 027 | 13 708 245 | 5 456 067 | 1 262 273 | -1 490 331 | 150 382 |
| Forward rate agreements | 1 641 466 | 1 331 586 | 309 880 | 0 | 907 | -1 458 | 1 549 |
| Interest rate futures | 685 853 | 608 392 | 77 460 | 0 | 0 | 0 | 387 |
| Interest rate options | 637 991 | 515 667 | 82 211 | 40 113 | 944 | -350 | 1 013 |
| Other contracts | | | | | | | |
| Share options | 451 754 | 1 526 | 449 535 | 693 | 0 | 0 | 36 124 |
| Futures transactions | 107 144 | 107 144 | 0 | 0 | 176 | -20 | 6 429 |
| **TRADING** | | | | | | | |
| **Derivatives** | **630 668 944** | **354 348 877** | **189 032 851** | **87 287 216** | **12 337 099** | **-12 992 269** | **8 171 830** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 87 312 010 | 85 993 252 | 1 285 081 | 33 677 | 1 164 108 | -1 263 271 | 926 712 |
| Currency and interest rate swaps | 15 112 870 | 5 858 293 | 6 242 136 | 3 012 441 | 383 355 | -437 037 | 596 623 |
| Options | 14 128 980 | 13 384 707 | 744 273 | 0 | 3 576 | -4 226 | 171 061 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 354 776 277 | 159 635 383 | 126 317 181 | 68 823 713 | 8 002 488 | -8 718 224 | 1 663 942 |
| Forward rate agreements | 20 304 997 | 15 081 437 | 4 360 215 | 863 346 | 36 832 | -29 630 | 34 751 |
| Interest rate futures | 22 819 032 | 18 949 726 | 3 869 306 | 0 | 32 721 | -28 199 | 19 347 |
| Interest rate options | 52 248 590 | 19 511 234 | 23 340 237 | 9 397 120 | 478 922 | -242 189 | 257 658 |
| Other contracts | | | | | | | |
| Share options | 62 723 836 | 34 692 495 | 22 874 422 | 5 156 920 | 2 219 966 | -2 259 515 | 4 427 195 |
| Futures transactions | 1 242 351 | 1 242 351 | 0 | 0 | 15 131 | -9 979 | 74 541 |
| **TOTAL, TRADING AND NON-TRADING** | | | | | | | |
| **Derivatives** | **724 972 257** | **426 938 624** | **204 916 350** | **93 117 283** | **13 887 126** | **-14 808 829** | **8 571 096** |
| 1 In foreign currencies | | | | | | | |
| Forward foreign exchange operations | 98 356 435 | 96 416 803 | 1 891 945 | 47 687 | 1 394 518 | -1 463 400 | 1 062 342 |
| Currency and interest rate swaps | 17 081 860 | 6 885 488 | 6 864 747 | 3 331 625 | 438 673 | -561 308 | 661 964 |
| Options | 14 263 332 | 13 492 367 | 770 964 | 0 | 3 576 | -4 226 | 173 472 |
| 2 In other financial instruments | | | | | | | |
| Interest rate contracts | | | | | | | |
| Interest rate swap agreements | 432 407 616 | 218 102 410 | 140 025 426 | 74 279 780 | 9 264 761 | -10 208 555 | 1 814 324 |
| Forward rate agreements | 21 946 463 | 16 413 022 | 4 670 095 | 863 346 | 37 739 | -31 087 | 36 301 |
| Interest rate futures | 23 504 884 | 19 558 118 | 3 946 767 | 0 | 32 721 | -28 199 | 19 734 |
| Interest rate options | 52 886 582 | 20 026 901 | 23 422 448 | 9 437 233 | 479 866 | -242 539 | 258 671 |
| Other contracts | | | | | | | |
| Share options | 63 175 590 | 34 694 021 | 23 323 957 | 5 157 613 | 2 219 966 | -2 259 515 | 4 463 319 |
| Futures transactions | 1 349 494 | 1 349 494 | 0 | 0 | 15 307 | -9 999 | 80 970 |
| Breakdown by counterparty type | | | | | | | |
| Government | 968 399 | 453 437 | 346 663 | 168 300 | 10 233 | -15 051 | 4 603 |
| Financial institutions | 562 840 891 | 338 760 987 | 157 728 088 | 69 660 869 | 9 080 286 | -13 070 335 | 5 684 642 |
| Other | 161 162 967 | 91 033 254 | 46 841 599 | 23 288 114 | 4 796 607 | -1 723 443 | 2 881 851 |

| **Impact on the results of the derogation from the valuation rule laid down in Article 36bis §2, regarding forward interest rate transactions** | **Amount as at year-end** | **Difference between market value and carrying value** |
|---|---|---|
| Categories of forward interest rate transactions | | |
| For the purpose of treasury management | 53 664 104 | -4 311 |
| For the purpose of ALM | 8 826 813 | -624 166 |

Trading transactions

Trading transactions are entered into with a view to making a profit on the short term on fluctuations in prices or interest rates. Such transactions are marked to market. Deals concluded as a result of prices quoted on the market by the bank are, among other things, considered trading transactions. Transactions in the trading book are subject to the capital adequacy requirements for the hedging of interest rate risks.

Non-trading transactions

Hedging operations: Hedging operations are carried out to reduce the interest rate or exchange risk associated with a hedged position. Similar operations can be considered as a single homogeneous unit of items to be hedged, if there is no more than 10% deviation in the duration. The classification of an operation as a hedge is irrevocable; when a hedge is initiated, the position being hedged has to be explicitly identified. A hedging operation that no longer qualifies as a hedge will be considered a trading transaction. Partial hedges are allowed. In order to be effective, the hedge must be in the same currency as the position hedged. The Basis Point Value (BPV) of the hedge may not deviate by more than 20% from the BPV of the position hedged.

Asset/Liability Management (ALM) in euros: Transactions in financial instruments entered into for the purpose of ALM in euros are 'macro-hedges' (hence they do not qualify as 'micro-hedges'), and must therefore be taken to the profit and loss account on an accruals basis, pursuant to the framework decree of 14 June 1994 issued by the Belgian Banking and Finance Commission.

Treasury management: Forward interest rate transactions which do not exceed the usual term for money market transactions and which have been concluded for treasury management purposes (in foreign currency) are taken to the profit and loss account on an accruals basis, pursuant to the framework decree of 14 June 1994 issued by the Belgian Banking and Finance Commission.

Strategic positions in foreign currency: These are positions taken solely by the dealing room in Brussels via derivatives with a view to making a profit via capital gains or interest spreads on the longer term. The bank marks this portfolio to market, although, for reasons of prudence, unrealized gains (unlike unrealized losses) are not posted (if unrealized gains had been posted in 2002, then additional earnings of 34.2 million euros would have been recorded). Forward transactions in the strategic portfolio do not qualify as trading transactions as far as capital adequacy requirements are concerned.

General management in foreign currency: The other forward interest rate transactions in foreign currency, which are carried out for the purpose of the general management of on- and off-balance-sheet transactions per currency are recorded in the profit and loss account on an accruals basis. Any loss per currency arising from marking these forward interest rate transactions to market must be posted to the profit and loss account after netting with any unrealized gains on balance-sheet products in the same currency.

The last part of the table on the previous page (Art. 36bis §2) shows the amounts, on closure of the books, of the transactions concluded for the purpose of treasury and ALM management (ALM in euros + general management in foreign currency). If the treasury transactions were marked to market, an additional loss of 4.3 million euros would have been posted. If the ALM transactions were marked to market, an additional loss of 624.2 million euros would have been recorded. These unrealized losses should be seen against the unrealized gains on balance-sheet items that are not recorded in the profit and loss account, either.

Off-balance-sheet headings, insurance

At the end of the 2002 financial year, the insurance group had 39 million euros worth of securities that had been sold but not yet delivered and 171 million euros worth of securities that had been purchased but not yet received. The Group's reinsurance companies blocked 60 million euros in securities in favour of cedants.

## Note 37: Uncalled share capital, insurance

### UNCALLED SHARE CAPITAL, INSURANCE

| (In thousands of EUR) | Associated companies | Companies linked by participating interests | Other | Total |
|---|---|---|---|---|
| **Total** | **0** | **67** | **5 433** | **5 500** |
| Huis der Verzekering | 0 | 66 | 0 | 66 |
| Gemeenschappelijk Waarborgfonds | 0 | 1 | 0 | 1 |
| 4 AZA Bioscience | 0 | 0 | 100 | 100 |
| IT-Partners | 0 | 0 | 248 | 248 |
| Aquafin | 0 | 0 | 495 | 495 |
| Capricorn Venture Fund | 0 | 0 | 3 000 | 3 000 |
| Net Fund Europe | 0 | 0 | 119 | 119 |
| Big Bang Ventures | 0 | 0 | 320 | 320 |
| Gemma Frisius Fonds | 0 | 0 | 656 | 656 |
| Brussels I3 Fonds | 0 | 0 | 495 | 495 |



## Note 38: Collateral security constituted by the consolidated entity or irrevocably committed as a charge against its own assets, Group

### COLLATERAL SECURITY CONSTITUTED BY THE CONSOLIDATED ENTITY OR IRREVOCABLY COMMITTED AS A CHARGE AGAINST ITS OWN ASSETS, GROUP

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| As security for the debts and commitments of the consolidated entity | | | | |
| Liabilities headings | | | | |
| ▌Discounting, repurchase agreements and secured advances | 19 379 347 | 25 756 115 | 31 686 286 | 23.0% |
| ▌Fixed pledge in respect of European Investment Bank credit facility | 532 227 | 529 253 | 633 850 | 19.8% |
| ▌Asset pledge requirement KBC New York | 256 851 | 154 317 | 204 062 | 32.2% |
| ▌Pledge, Federal Reserve Bank of New York | 0 | 0 | 1 045 000 | - |
| ▌Other | 963 629 | 606 675 | 96 372 | -84.1% |
| Off-balance-sheet headings | | | | |
| ▌Options and futures | 400 199 | 1 005 012 | 1 043 056 | 3.8% |
| ▌Securities lending | 3 221 | 0 | 0 | - |
| ▌Mandatory security, industrial accidents | 9 987 | 0 | 0 | - |
| ▌Other | 0 | 124 | 0 | -100.0% |
| As security for the debts and commitments of third parties | | | | |
| Liabilities headings | | | | |
| ▌Other | 604 242 | 459 259 | 492 489 | 7.2% |
| Off-balance-sheet headings | | | | |
| ▌Other | 116 252 | 19 893 | 42 483 | 113.6% |

The bank had irrevocably guaranteed all the commitments outstanding as at 31 December 2002 listed in Section 5c of the Irish Companies Amendment Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies Amendment Act.

- IIB Bank Limited
- KBC Financial Services (Ireland) Limited
- IIB Nominees Limited
- Monastersky Limited
- Kalzari Limited
- Danube Holdings Limited
- Perisda Limited
- Meridian Properties Limited
- Wardbury Properties Limited
- Bencrest Properties Limited
- Maurevel Investment Company Limited
- Linkway Developments Limited
- Needwood Properties Limited
- Dunroamin Properties Limited
- Homeloans and Finance Limited
- Irish Homeloans and Finance Limited
- KBC Asset Management Ireland Limited
- IIB Homeloans Limited
- IIB Finance Limited
- IIB Homeloans and Finance Limited
- IIB Commercial Finance Limited
- IIB Asset Finance Limited
- IIB Leasing Limited
- Intercontinental Finance Limited
- Lease Services Limited
- Khans Holdings Limited
- Proactive Mortgages Limited
- KBC Homeloans and Finance Limited
- Demilune Limited
- Cluster Properties Limited
- Staple Properties Limited
- Glare Nominee Limited
- KBC Fund Managers Limited
- KBC Asset Management Limited
- KBC Asset Management International Limited

# OTHER NOTES

## Note 39: Cash flow statement of the KBC Bank and Insurance Holding Company NV (consolidated)

### CASH FLOW STATEMENT OF THE KBC BANK AND INSURANCE HOLDING COMPANY NV (CONSOLIDATED)

| (In thousands of EUR) | 2000 | 2001 | 2002 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Consolidated profit | 1 976 509 | 1 178 428 | 1 200 024 |
| Banking | | | |
| Net write-downs on amounts receivable, commitments, investment securities and financial fixed assets | 360 579 | 405 834 | 704 179 |
| Depreciation on fixed assets | 313 814 | 381 084 | 456 662 |
| Net change in provisions | -18 930 | -43 538 | 57 084 |
| Insurance | | | |
| Depreciation on fixed assets | 51 032 | 56 379 | 44 390 |
| Write-downs on investments | 7 473 | 1 674 | 284 083 |
| Net change in non-life insurance provisions | 110 035 | 253 875 | 1 418 375 |
| Net change in life assurance provisions | 1 080 227 | 681 604 | -139 856 |
| Net change in other provisions | 82 019 | 4 031 | -218 828 |
| **Subtotal, internal financing** | **3 962 757** | **2 919 370** | **3 806 113** |
| Directors' emoluments | -1 362 | -1 304 | -1 142 |

| (In thousands of EUR) | 2000 | 2001 | 2002 |
|---|---|---|---|
| Banking | | | |
| Change in the scope of consolidation, amounts written down on receivables | 52 064 | 193 311 | 84 546 |
| Acquisition of investment securities | -30 974 790 | -42 234 747 | -46 062 923 |
| Sale of investment securities | 31 728 137 | 38 294 384 | 53 960 682 |
| Matured portion of premium/discount on investment securities | 116 533 | -2 449 | 42 810 |
| Change in deferrals and accruals | 657 498 | 1 688 134 | -1 857 475 |
| Change in working capital requirement | -4 300 908 | -2 184 141 | -6 556 771 |
| Amounts eliminated on consolidation | 339 205 | -409 741 | -263 368 |
| Insurance | | | |
| Acquisition of investment securities | -3 327 910 | -2 707 726 | -3 775 984 |
| Sale of investment securities | 2 115 887 | 1 610 336 | 2 207 657 |
| Change in deferrals and accruals | 10 974 | 15 798 | -25 833 |
| Change in working capital requirement | -133 225 | -28 104 | -72 680 |
| Amounts eliminated on consolidation | 82 559 | -25 967 | 333 557 |
| Holding-company activities | | | |
| Change in working capital requirement | 151 632 | -104 214 | 137 304 |
| Amounts eliminated on consolidation | -402 767 | 471 160 | -66 827 |
| **Net cash flow from operating activities** | **76 284** | **-2 505 898** | **1 889 667** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Banking | | | |
| Acquisition of financial assets | -181 938 | -73 199 | -384 732 |
| Sale of financial fixed assets | 770 711 | 114 843 | 37 520 |
| Acquisition of (in)tangible fixed assets | -557 085 | -942 748 | -1 323 014 |
| Sale of (in)tangible fixed assets | 302 172 | 729 736 | 625 660 |
| Insurance | | | |
| Acquisition of (in)tangible fixed assets | -13 230 | -31 517 | -46 698 |
| Sale of (in)tangible fixed assets | 230 | 13 557 | 577 |
| Holding-company activities | | | |
| Acquisition of financial fixed assets | -11 030 | -40 488 | -4 358 |
| **Net cash flow from investment activities** | **309 830** | **-229 817** | **-1 095 045** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Income from the issue of shares | 37 168 | 52 612 | 9 509 |
| Dividends paid | -424 470 | -446 168 | -459 176 |
| Income from the issue of preference shares | 47 562 | 35 997 | -108 676 |
| Subordinated bonds and borrowings via subsidiaries | 1 078 804 | 389 162 | -105 677 |
| Eliminations in respect of subordinated bonds on consolidation | -315 639 | -351 089 | -354 451 |
| Non-subordinated bonds and borrowings via subsidiaries | 1 033 262 | 892 269 | 1 592 352 |
| Goodwill written off | 263 768 | -361 153 | 97 744 |
| Other changes | -198 498 | 103 950 | -411 474 |
| **Net cash flow from financing activities** | **1 521 958** | **315 580** | **260 152** |
| **Cash and cash equivalents at the start of the financial year** | **3 949 299** | **5 857 373** | **3 437 237** |
| Net cash flow from operating activities | 76 284 | -2 505 899 | 1 889 667 |
| Net cash flow from investment activities | 309 830 | -229 817 | -1 095 045 |
| Net cash flow from financing activities | 1 521 957 | 315 580 | 260 152 |
| **Cash and cash equivalents at the end of the financial year** | **5 857 370** | **3 437 238** | **4 492 012** |
| Banking | | | |
| Cash in hand, balances at central banks and post office banks | 729 988 | 1 259 396 | 1 210 540 |
| Treasury bills eligible for refinancing at the central bank | 3 961 501 | 3 582 772 | 3 023 992 |
| Loans and advances to credit institutions, repayable on demand | 3 086 184 | 4 259 807 | 1 874 114 |
| Amounts owed to credit institutions, repayable on demand | -2 128 257 | -6 077 690 | -2 233 198 |
| Amounts owed as a result of the rediscounting of trade bills | -103 593 | -14 373 | -21 139 |
| Insurance | | | |
| Liquid assets | 176 284 | 181 192 | 192 246 |
| Holding-company activities | | | |
| Investments and cash at bank and in hand | 135 265 | 246 132 | 445 458 |
| **Total** | **5 857 372** | **3 437 236** | **4 492 012** |



The cash flow statement of the KBC Bank and Insurance Holding Company (consolidated) provides an overview of changes in the Group's cash and cash equivalents during the course of 2002. The cash flows shown – except for those stemming from financing activities – have been divided up relative to the banking business, the insurance business and the holding company.

The cash flow statement has been drawn up using the indirect method. This entails adjusting consolidated profit for the items which constitute neither cash revenue nor expenditure. This internal financing, along with working-capital cash flows, constitute cash flow from operating activities. Also shown are the cash flows generated by investment and financing activities. The three types of cash flow are summed to arrive at the total cash flow between the beginning and the end of the financial year.

## Note 40: Financial relationships with directors and partners, Group

### FINANCIAL RELATIONSHIPS WITH DIRECTORS AND PARTNERS, GROUP

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| A Amount of remuneration to directors* or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount in respect of retirement pensions granted to former directors or partners on that basis | 8 556 | 8 652 | 8 004 |
| *of whom members of the Executive Committee | 5 623 | 6 028 | 5 319 |
| B Advances and loans granted to the directors and partners referred to under A above | 4 310 | 4 505 | 3 871 |

The amounts shown in this note are higher than the amounts mentioned in the section on 'Corporate governance', since emoluments paid to directors of the KBC Bank and Insurance Holding Company NV by Group companies other than the KBC Bank and Insurance Holding Company NV, KBC Bank NV or KBC Insurance NV are included here.

## Note 41: Remuneration paid to the statutory auditor

Besides the remuneration established by the General Meeting of the KBC Bank and Insurance Holding Company NV, KBC Bank NV and KBC Insurance NV, the following additional remuneration (excl. VAT) was paid in 2002 to the statutory auditor and the companies he works with in a professional capacity:

- KBC Bank and Insurance Holding Company NV: 17 976.15 euros for special assignments relating primarily to capital increases for personnel and the change in the object of the company;
- KBC Bank NV: 370 171.50 euros for special assignments relating primarily to preparations for switching to the IAS, comfort letters concerning the issue of debt securities, Qualified Intermediary procedures and courses;
- KBC Insurance NV: 10 974.55 euros for special assignments relating to expertise reports.

## Note 42: Personnel, Group

### PERSONNEL, GROUP

| | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Average number of persons employed (in FTEs) | | | | |
| KBC Bank and Insurance Holding Company | 10 | 11 | 2 019 | - |
| KBC Bank | 35 839 | 43 827 | 41 995 | -4.2% |
| KBC Insurance* | 2 943 | 2 945 | 3 907 | 32.7% |
| KBC Asset Management | 281 | 295 | 322 | 9.2% |
| **Total** | **39 073** | **47 078** | **48 243** | **2.5%** |
| Number employed in Belgium | 20 344 | 20 549 | 20 220 | -1.6% |
| Staff and pension charges (in thousands of EUR) | | | | |
| KBC Bank and Insurance Holding Company | 910 | 1 174 | 149 647 | - |
| KBC Bank | 1 657 119 | 1 820 961 | 1 831 603 | 0.6% |
| KBC Insurance | 144 197 | 152 895 | 158 166 | 3.4% |
| KBC Asset Management | 17 441 | 21 973 | 24 466 | 11.3% |
| **Total** | **1 819 667** | **1 997 003** | **2 163 882** | **8.4%** |

* The figures do not include the distribution network of the insurance companies.

Comparison of staffing levels and related charges for 2002 and 2001 is complicated by the transfer of around 2 000 members of staff from the bank and the insurance company to the so-called 'Cost-sharing Association' for legal purposes comes under the KBC Bank and Insurance Holding Company.

Although this entity's costs are allocated to the bank and the insurance company in the profit and loss account, they are dealt with under the KBC Bank and Insurance Holding Company item in this note, so as not to distort the link to the personnel figures.

The figures shown above relate to full-time equivalents (FTEs) and annual averages. For proportionally consolidated companies, the corresponding percentage of the workforce is taken into consideration.

# SOLVENCY

## SOLVENCY, KBC BANK

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Regulatory capital, KBC Bank (after profit appropriation) | 14 549 161 | 14 568 779 | 12 976 020 | -10.9% |
| Tier-1 capital | 8 612 533 | 8 754 560 | 8 388 177 | -4.2% |
| Capital and reserves | 5 299 052 | 7 007 267 | 7 277 514 | 3.9% |
| Revaluation reserve | -10 630 | -10 162 | -9 702 | -4.5% |
| Fund for General Banking Risks | 1 841 379 | 0 | 0 | - |
| Formation expenses and intangible assets | -120 956 | -171 611 | -195 570 | 14.0% |
| Own shares | -55 269 | -55 269 | -55 269 | 0.0% |
| Goodwill on consolidation | -40 767 | -32 791 | -381 117 | - |
| Preference shares* | 1 291 880 | 1 313 184 | 1 258 227 | -4.2% |
| Minority interests | 407 844 | 703 942 | 494 094 | -29.8% |
| Tier-2 capital | 6 067 300 | 5 743 427 | 5 202 282 | -9.4% |
| Revaluation reserve | 10 630 | 10 162 | 9 702 | -4.5% |
| Upper-Tier-2 instruments | | | | |
| ▪ Mandatory convertible loan (1993-2003) | 244 212 | 243 958 | 243 704 | -0.1% |
| ▪ Mandatory convertible loan (1998-2008) | 185 920 | 185 920 | 185 920 | 0.0% |
| ▪ Mandatory convertible loan (1999-2006) | 250 000 | 250 000 | 250 000 | 0.0% |
| ▪ Perpetuals | 1 070 272 | 1 049 843 | 991 686 | -5.5% |
| Subordinated liabilities | 4 306 267 | 4 003 544 | 3 521 270 | -12.0% |
| Tier-3 capital | 312 863 | 339 815 | 111 797 | -67.1% |
| Items to be deducted (participating interests) | -443 536 | -269 023 | -726 236 | 170.0% |
| Total risk-weighted volume | 91 014 335 | 99 081 256 | 94 983 778 | -4.1% |
| Credit risk, investment | 85 148 141 | 92 060 206 | 86 243 090 | -6.3% |
| Credit risk, trading | 2 038 663 | 2 042 450 | 3 151 625 | 54.3% |
| Interest rate risk, trading | 1 929 925 | 2 637 263 | 3 278 563 | 24.3% |
| Trading portfolio position in equities | 1 714 125 | 1 686 688 | 1 788 000 | 6.0% |
| Exchange risk | 183 481 | 654 650 | 522 500 | -20.2% |
| Solvency ratios | | | | |
| Tier-1 ratio | 9.46% | 8.84% | 8.83% | |
| CAD ratio | 15.99% | 14.70% | 13.66% | |

| Explanation regarding changes in solvency ratios | Tier-1 ratio | CAD ratio |
|---|---|---|
| Situation as at 01-01-2002 | 8.84% | 14.70% |
| Acquisitions | -0.58% | -0.92% |
| New funds and internal capital creation | | |
| Preference shares | -0.06% | -0.11% |
| Subordinated loans and perpetuals | 0.00% | -0.72% |
| Retained profit | 0.30% | 0.24% |
| Other | -0.04% | -0.12% |
| Organic growth in risk-weighted volume | 0.37% | 0.59% |
| **Situation as at 31-12-2002** | **8.83%** | **13.66%** |

* The preference shares are recorded on the balance sheet under minority interests.

KBC Bank's consolidated own funds went up by 270 million euros in 2002, mainly because of the retention of profit. Besides being affected by accounting equity, tier-1 capital in 2002 was influenced primarily by the bigger deduction of goodwill on consolidation (due to the acquisition of a stake in NLB and the increased participating interests in Kredyt Bank and ČSOB). Minority interests fell primarily on account of these higher participating interests. In tandem with the decline in tier-1 capital, preference shares included in tier-1 capital were also down (only 15% of tier-1 capital can be made up of preference shares, so the remainder of the preference shares have been included in tier-2 capital under perpetuals).

The decline in subordinated liabilities is accounted for by the decline in the average remaining term to maturity used to calculate tier-2 capital.

Items to be deducted increased by 457 million euros, chiefly as a result of NLB being accounted for using the equity method and the subordinated loan to this bank, the increase in the stake taken by ČSOB in (the former) IPB Pojišt'ovna and the growth in the own funds of the KBC Asset Management Group, which is accounted for using the equity method.



By stringently curtailing the organic growth of risk-weighted assets, they fell by 4 097 million euros. The biggest decline occurred at KBC Bank (at first sight, this would appear to be inconsistent with the growth in loans and advances to customers; however, these loans and advances include a sharp rise in reverse repos which are weighted at 0% via underlying OLOs). There was an increase in market risks at KBC Financial Products due to its credit derivatives activities, among other things.
The acquisitions made in 2002 had a bigger impact on the CAD ratio than on the tier-1 ratio, due to the deduction of the value derived via the equity method for NLB.
KBC Bank's solvency ratios were well above the in-house targets of 8-8.25% and 12% for the tier-1 and CAD ratios, respectively. Consequently, the excess is available to achieve further organic and external growth.

## SOLVENCY, KBC INSURANCE

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 | Change |
|---|---|---|---|---|
| Paid-up share capital | 28 955 | 29 007 | 29 007 | 0.0% |
| Share premium account | 121 743 | 121 743 | 121 743 | 0.0% |
| Reserves | 1 368 905 | 1 563 076 | 1 719 129 | 10.0% |
| Goodwill on consolidation | -124 288 | -127 484 | -81 199 | -36.3% |
| Translation differences | -2 044 | 1 580 | -7 669 | - |
| **Total Group equity** | **1 393 270** | **1 587 921** | **1 781 011** | **12.2%** |
| Dividend payout, KBC Insurance | -160 065 | -187 134 | -190 080 | 1.6% |
| Minority interests | 56 645 | 8 155 | 8 458 | 3.7% |
| **Total capital and reserves** | **1 289 849** | **1 408 942** | **1 599 389** | **13.5%** |
| Subordinated liabilities | 19 336 | 19 336 | 19 336 | 0.0% |
| **Total capital resources** | **1 309 185** | **1 428 277** | **1 618 725** | **13.3%** |
| Items to be deducted | | | | |
| Intangible fixed assets | -70 931 | -74 554 | -62 923 | -15.6% |
| Goodwill on consolidation | -10 556 | -8 832 | -38 796 | 339.3% |
| Subtotal | -81 487 | -83 386 | -101 719 | 22.0% |
| **Total** | **1 227 698** | **1 344 891** | **1 517 006** | **12.8%** |
| Unrealized gains | 1 503 132 | 791 555 | 69 721 | -91.2% |
| **Total, including unrealized gains** | **2 730 830** | **2 136 446** | **1 586 727** | **-25.7%** |
| Required solvency margin for 'non-life' business | | | | |
| 'Non-life' and industrial accidents-legal lines | 126 451 | 135 985 | 152 053 | 11.8% |
| Annuities | 5 875 | 6 423 | 6 761 | 5.3% |
| Total | 132 326 | 142 408 | 158 815 | 11.5% |
| Required solvency margin for 'life' business | | | | |
| Traditional (class 21) | 244 412 | 256 038 | 317 791 | 24.1% |
| Unit-linked (class 23) | 22 860 | 25 123 | 19 438 | -22.6% |
| Total | 267 271 | 281 160 | 337 229 | 19.9% |
| **Total required solvency margin** | **399 597** | **423 568** | **496 044** | **17.1%** |
| Explicit solvency ratio | 307% | 318% | 306% | - |
| Implicit solvency ratio | 683% | 504% | 320% | - |
| Explicit surplus | 828 101 | 921 323 | 1 020 962 | 10.8% |
| Implicit surplus | 2 331 233 | 1 712 877 | 1 090 683 | -36.3% |

KBC Insurance's total capital resources (after items to be deducted) went up in 2002 by 172 million euros to 1 517 million euros, mainly because of the retention of profit. The explicit solvency ratio, calculated as the ratio between the solvency capital – excluding unrealized gains – present in the insurance group and the required solvency capital, fell by 12 percentage points. However, it rose to 336% on an organic basis. The full consolidation of (the former) IPB Pojišt'ovna, the additional goodwill deducted from own funds and the increase in the capital requirements owing to the full consolidation are the main reasons why this ratio fell.
The implicit solvency ratio (including unrealized gains) was close to the explicit ratio, due to the fact that realized gains were down sharply as a result of the poor state of the financial markets.

# STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

## STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 TO THE SHAREHOLDERS' MEETING OF THE KBC BANK AND INSURANCE HOLDING COMPANY NV

'In accordance with legal and regulatory requirements, we are pleased to report to you on the performance of the audit mandate which you have entrusted to us.
We have audited the consolidated financial statements as of and for the year ended December 31, 2002 which have been prepared under the responsibility of the Board of Directors and which show a balance sheet total of 221 730 540 thousand EUR and a share of the group in the profit for the year of 1 034 204 thousand EUR. We have also examined the Directors' consolidated report.

### [Unqualified audit opinion on the consolidated financial statements]

We conducted our audit in accordance with the standards of the 'Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren'. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements in Belgium.
In accordance with those standards, we considered the group's administrative and accounting organisation, as well as its internal control procedures. We have obtained explanations and information required for our audit. We examined, on a test basis, evidence supporting the amounts in the consolidated financial statements. We have assessed the validity of the accounting principles, the consolidation policies and significant accounting estimates made by management, as well as the overall presentation of the consolidated financial statements.
We believe that our procedures provide a reasonable basis for our opinion.
In our opinion, taking into account the legal and regulatory requirements applicable in Belgium, the consolidated financial statements give a true and fair view of the group's assets, liabilities and financial position as of December 31, 2002 and the consolidated results of its operations for the year then ended, and the information given in the notes to the consolidated financial statements is adequate.

### [Additional certifications]

We supplement our report with the following certifications which do not modify our audit opinion on the consolidated financial statements:

- The Directors' consolidated report contains the information required by law and is consistent with the consolidated financial statements.

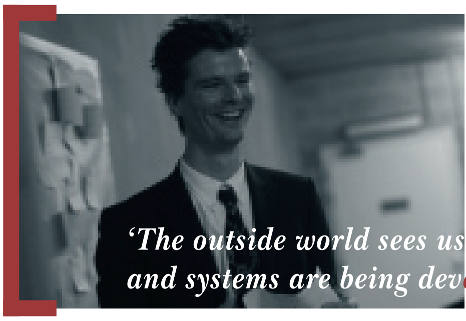
- The notes to the financial statements contain adequate comments on:
  - the changes in the valuation rules,
  - the derogations obtained from the Belgian Banking and Finance Commission in application of Article 8 of the Royal Decree of September 1, 1986 on the consolidated financial statements of holding companies regarding:
    - the treatment of positive consolidation differences,
    - the presentation of the financial statements and
    - the application of valuation rules which take into account the specificity of the areas of activity (banking including asset management, insurance and holding-company activities)

Brussels, March 5, 2003'

Ernst & Young Bedrijfsrevisoren BCV
Statutory auditor represented by

Jean-Pierre Romont
Partner

Danielle Vermaelen
Partner



Renaat Mertens
SME Relationship Manager
KBC Antwerpen-Rockox

*'The outside world sees us as a highly professional organization. New products and systems are being developed all the time – but at KBC we're very adaptable.'*

# COMPANY ANNUAL ACCOUNTS
# KBC BANK AND INSURANCE HOLDING COMPANY NV

The company annual accounts of the KBC Bank and Insurance Holding Company NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the Statutory Auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from:

KBC Bank and Insurance Holding Company NV
Strategy & Expansion Division – SEE
Havenlaan 2
BE-1080 Brussels

The auditor has delivered an unqualified audit opinion on the company annual accounts of the KBC Bank and Insurance Holding Company NV.

# BALANCE SHEET, PROFIT AND LOSS ACCOUNT AND PROFIT APPROPRIATION

## [Balance sheet after profit appropriation]

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| **ASSETS** | | | |
| Fixed assets | 5 975 382 | 5 922 966 | 5 927 324 |
| IV Financial fixed assets | 5 975 382 | 5 922 966 | 5 927 324 |
| A Associated companies | 5 975 382 | 5 922 966 | 5 927 324 |
| 1 Participating interests | 5 678 916 | 5 586 011 | 5 586 011 |
| 2 Amounts receivable | 296 466 | 336 955 | 341 313 |
| Current assets | 180 747 | 291 226 | 462 461 |
| VII Amounts receivable within one year | 23 403 | 23 679 | 24 821 |
| B Other amounts receivable | 23 403 | 23 679 | 24 821 |
| VIII Investments | 132 098 | 148 839 | 225 824 |
| A Own shares | 132 098 | 148 839 | 225 824 |
| IX Cash at bank and in hand | 3 167 | 97 293 | 194 813 |
| X Deferred charges and accrued income | 22 079 | 21 414 | 17 003 |
| **Total assets** | **6 156 129** | **6 214 192** | **6 389 784** |
| **LIABILITIES** | | | |
| Capital and reserves | 4 317 226 | 4 477 925 | 4 537 334 |
| I Capital | 585 377 | 590 388 | 591 138 |
| A Subscribed capital | 585 377 | 590 388 | 591 138 |
| II Share premium account | 1 961 818 | 2 009 421 | 2 018 180 |
| IV Reserves | 1 769 583 | 1 875 083 | 1 900 158 |
| A Legal reserve | 58 538 | 59 039 | 59 114 |
| B Reserves not available for distribution | 133 437 | 150 178 | 227 163 |
| C Untaxed reserves | 189 869 | 189 869 | 189 869 |
| D Reserves available for distribution | 1 387 739 | 1 475 997 | 1 424 013 |
| V Profit brought forward | 448 | 3 032 | 27 857 |
| Creditors | 1 838 903 | 1 736 267 | 1 852 450 |
| VII Provisions and deferred taxes | 0 | 0 | 2 189 |
| VIII Amounts payable at more than one year | 416 520 | 416 520 | 477 148 |
| A Financial debts | 416 520 | 416 520 | 477 148 |
| 1 Credit institutions | 116 520 | 116 520 | 177 148 |
| 2 Other loans | 300 000 | 300 000 | 300 000 |
| IX Amounts payable within one year | 1 347 129 | 1 243 303 | 1 301 169 |
| B Financial debts | 917 113 | 793 780 | 800 500 |
| 1 Credit institutions | 339 012 | 0 | 0 |
| 2 Commercial paper | 578 101 | 793 780 | 800 500 |
| C Trade debts | 490 | 0 | 98 |
| E Amounts owed because of taxation, remuneration and social security charges | 107 | 148 | 22 784 |
| 1 Taxes | 0 | 14 | 3 168 |
| 2 Remuneration and social security charges | 107 | 134 | 19 617 |
| F Other creditors | 429 419 | 449 375 | 477 788 |
| X Accrued charges and deferred income | 75 254 | 76 444 | 71 945 |
| **Total liabilities** | **6 156 129** | **6 214 192** | **6 389 784** |



## [Profit and loss account]

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| **CHARGES** | | | |
| A Interest and other debt charges | 109 617 | 123 521 | 97 403 |
| B Other financial charges | 196 | 549 | 186 |
| C Services and sundry goods | 2 490 | 2 068 | 9 168 |
| D Remuneration, social security charges and pensions | 910 | 1 174 | 149 647 |
| E Miscellaneous current expenses | 417 | 0 | 0 |
| F Depreciation, amortization, amounts written down and provisions for liabilities and charges | 0 | 0 | 149 |
| L Profit for the period | 431 216 | 555 557 | 510 218 |
| **Total charges** | **544 846** | **682 869** | **766 771** |
| N Profit for the period available for appropriation | 433 869 | 555 557 | 510 218 |
| **INCOME** | | | |
| A Income from financial fixed assets | 479 785 | 616 498 | 565 563 |
| B Income from current assets | 49 001 | 62 535 | 44 774 |
| C Other financial income | 420 | 714 | 769 |
| D Other operating income | 0 | 0 | 154 716 |
| E Other current income | 2 | 4 | 0 |
| F Miscellaneous income | 0 | 90 | 949 |
| I Gains on realization | 10 498 | 3 027 | 0 |
| K Adjustments to income taxes | 5 140 | 0 | 0 |
| **Total income** | **544 846** | **682 869** | **766 771** |
| M Transfers from untaxed reserves | 2 653 | 0 | 0 |

## [Appropriation account]

| (In thousands of EUR) | 31-12-2000 | 31-12-2001 | 31-12-2002 |
|---|---|---|---|
| A Profit to be appropriated | 436 576 | 556 005 | 513 250 |
| 1 Profit for the period available for appropriation | 433 869 | 555 557 | 510 218 |
| 2 Profit brought forward from the previous financial year | 2 707 | 448 | 3 032 |
| C Appropriations to capital and reserves | -10 298 | -105 501 | -25 075 |
| 1 To the legal reserve | 298 | 501 | 75 |
| 2 To other reserves | 10 000 | 105 000 | 25 000 |
| D Profit (Loss) to be carried forward | -448 | -3 032 | -27 857 |
| 1 Profit to be carried forward | 448 | 3 032 | 27 857 |
| F Profit to be paid out | -425 830 | -447 471 | -460 318 |
| 1 Dividends | 424 469 | 446 168 | 459 176 |
| 2 Directors' entitlements | 1 361 | 1 304 | 1 142 |

## [Dividend]

The Board of Directors will propose to the general meeting of shareholders that a gross dividend of 1.52 euros be paid out per share entitled to dividend. This corresponds to a net dividend per ordinary share of 1.14 euros and a net dividend per share with VV strip of 1.292 euros.

# NOTES TO THE COMPANY ANNUAL ACCOUNTS

## Note 1: Financial fixed assets

### FINANCIAL FIXED ASSETS

| (In thousands of EUR) | Associated companies | Amounts receivable |
|---|---|---|
| Carrying value as at 1 Jan. 2002 | 5 586 011 | 336 955 |
| Acquisitions | 0 | 4 358 |
| Carrying value as at 31 Dec. 2002 | 5 586 011 | 341 313 |

The participating interests in associated companies comprise mainly the stakes the KBC Bank and Insurance Holding Company NV holds in KBC Bank NV (99.35%), in KBC Insurance NV (100%) and, since 2000, in KBC Asset Management NV (55.25%).
The 'amounts receivable' are accounted for primarily by an ACB (a subordinated, automatically convertible bond loan) issued by KBC Bank NV and maturing in 2006, which the KBC Bank and Insurance Holding Company NV subscribed to in the amount of 250 million euros (in 1999). The increase in amounts receivable in 2002 is the result of the contribution of MCBs, or Mandatory Convertible Bonds (see below), by the KBC Bank and Insurance Holding Company, which gave rise to a claim against KBC Bank.
Shown below is the structure of shareholdings in KBC Bank NV and KBC Insurance NV at the end of 2002:

### SHAREHOLDER STRUCTURE, KBC BANK AND KBC INSURANCE (31-12-2002)

| | KBC Bank NV | | KBC Insurance NV | |
|---|---|---|---|---|
| | Number of shares | In % | Number of shares | In % |
| KBC Bank and Insurance Holding Company NV | 361 775 623 | 99.35 | 467 857 | 100.00 |
| KBC Bank NV | 0 | 0.00 | 1 | 0.00 |
| KBC Insurance NV | 1 | 0.00 | 0 | 0.00 |
| Centea NV | 2 354 483 | 0.65 | 0 | 0.00 |
| Total | 364 130 107 | 100.00 | 467 858 | 100.00 |

## Note 2: Capital and reserves and shareholders

### CAPITAL AND RESERVES AND SHAREHOLDERS

### a Changes in capital and reserves

| (In thousands of EUR) | Opening balance 01-01-2002 | Capital increase for staff | Conversion, MCBs | Retained profit | Other changes | Closing balance 31-12-2002 |
|---|---|---|---|---|---|---|
| Capital | 590 388 | 293 | 457 | 0 | 0 | 591 138 |
| Share premium account | 2 009 421 | 4 858 | 3 901 | 0 | 0 | 2 018 180 |
| Reserves | 1 875 083 | 0 | 0 | 25 075 | 0 | 1 900 158 |
| Profit (Loss) brought forward | 3 032 | 0 | 0 | 24 825 | 0 | 27 857 |
| **Capital and reserves** | 4 477 925 | 5 151 | 4 358 | 49 900 | 0 | 4 537 334 |

### b Details of changes in capital and the share premium account

- Shares

The capital of the KBC Bank and Insurance Holding Company NV consists solely of ordinary shares. No participation certificates or non-voting shares are issued.
The shares are listed on Euronext Brussels.
The shares issued within the framework of the capital increase for personnel in 2002 will only be entitled to dividend from the 2003 financial year.



▮ Share capital and share premium account

## CHANGES IN CAPITAL AND THE SHARE PREMIUM ACCOUNT IN 2000, 2001 AND 2002

| (In EUR) | Date | Capital | Share premium account | Number of shares |
|---|---|---|---|---|
| Contribution of 1993/1996-2003 MCBs | 01-01-2000 through 29-11-2000 | 584 331 040 | 1 944 083 038 | 298 761 422 |
| Capital increase for personnel and retired employees | 28-12-2000 | 585 062 816 | 1 959 048 207 | 299 134 777 |
| Contribution of 1993/1996-2003 MCBs | 28-12-2000 | 585 373 660 | 1 961 692 192 | 299 293 707 |
| Contribution of 1998/2008 MCBs | 28-12-2000 | 585 377 277 | 1 961 818 061 | 299 295 556 |
| Contribution of 1993/1996-2003 MCBs | 01-01-2001 through 30-03-2001 | 585 477 456 | 1 962 670 165 | 299 346 776 |
| Contribution of 1998/2008 MCBs | 30-03-2001 | 585 482 241 | 1 962 836 742 | 299 349 223 |
| Contribution of 1993/1996-2003 MCBs | 01-04-2001 through 29-06-2001 | 586 225 838 | 1 969 161 644 | 299 729 413 |
| Contribution of 1998/2008 MCBs | 29-06-2001 | 586 226 503 | 1 969 184 789 | 299 729 753 |
| Contribution of 1993/1996-2003 MCBs | 01-07-2001 through 28-09-2001 | 588 737 469 | 1 990 542 623 | 301 013 573 |
| Contribution of 1998/2008 MCBs | 28-09-2001 | 588 737 864 | 1 990 556 374 | 301 013 775 |
| Contribution of 1993/1996-2003 MCBs | 01-10-2001 through 29-11-2001 | 589 619 212 | 1 998 052 960 | 301 464 395 |
| Capital increase for personnel | 27-12-2001 | 590 387 504 | 2 009 408 794 | 301 856 381 |
| Contribution of 1998/2008 MCBs | 27-12-2001 | 590 387 854 | 2 009 420 979 | 301 856 560 |
| Contribution of 1993/1996-2003 MCBs | 01-01-2002 through 28-03-2002 | 590 402 946 | 2 009 549 030 | 301 864 260 |
| Contribution of 1998/2008 MCBs | 28-03-2002 | 590 403 254 | 2 009 559 717 | 301 864 417 |
| Contribution of 1993/1996-2003 MCBs | 01-04-2002 through 27-06-2002 | 590 451 372 | 2 009 967 984 | 301 888 967 |
| Contribution of 1998/2008 MCBs | 27-06-2002 | 590 451 678 | 2 009 978 603 | 301 889 123 |
| Contribution of 1993/1996-2003 MCBs | 01-07-2002 through 30-09-2002 | 590 451 991 | 2 009 981 264 | 301 889 283 |
| Contribution of 1998/2008 MCBs | 30-09-2002 | 590 452 236 | 2 009 989 772 | 301 889 408 |
| Contribution of 1993/1996-2003 MCBs | 01-10-2002 through 29-11-2002 | 590 844 236 | 2 013 315 772 | 302 089 408 |
| Capital increase for personnel | 30-12-2002 | 591 137 507 | 2 018 174 194 | 302 239 036 |
| Contribution of 1993/1996-2003 MCBs | 30-12-2002 | 591 137 703 | 2 018 175 857 | 302 239 136 |
| Contribution of 1998/2008 MCBs | 30-12-2002 | 591 137 829 | 2 018 180 213 | 302 239 200 |

At year-end 2002, the company's issued share capital amounted to 591 137 829 euros, represented by 302 239 200 shares, 28 862 460 of which were VV shares. Of these last, 149 628 shares will only be entitled to dividend from the 2003 financial year. The share capital is fully paid up.

During the course of the financial year, share capital increased by 749 974 euros.

As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital and which was reserved for the personnel of the KBC Bank and Insurance Holding Company NV and its Belgian subsidiaries, 149 628 new VV shares were issued. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 34.43 euros and will be blocked for five years, as required by law. Through this capital increase, the KBC Bank and Insurance Holding Company aims to strengthen its ties with its personnel and with the personnel of its subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.

Further, during the course of the financial year, 232 510 new shares were created through the contribution of 23 251 subordinated 1993/1996-2003 mandatory convertible bonds (MCBs), redeemable in KBC Bank and Insurance Holding Company shares, and 502 new shares were created via the contribution of 502 subordinated 1998/2008 mandatory convertible bonds (MCBs), redeemable in KBC Bank and Insurance Holding Company shares.

As at 31 December 2002, there were a total of 829 442 1993/1996-2003 MCBs in circulation (for a nominal amount of 154 209 857 euros, with a base rate of 5.75% and a maturity date of 30 November 2003), which had not yet been contributed to the capital of the KBC Bank and Insurance Holding Company. The holders of these bonds are entitled, until 20 November 2003, to request that their MCBs be contributed according to a ratio of ten new KBC Bank and Insurance Holding Company shares for one MCB. MCBs which have not been contributed by their holders will be converted automatically into new KBC Bank and Insurance Holding Company shares at maturity. This will result in the number of KBC Bank and Insurance Holding Company VV shares increasing by 8 294 420.

As at 31 December 2002, there were a total of 2 649 348 1998-2008 MCBs in circulation (for a nominal amount of 185 533 840 euros, with a base rate of 3.5% and a maturity date of 30 November 2008), which had not yet been contributed to the capital of the KBC Bank and Insurance Holding Company. The holders of these bonds are entitled, until 30 November 2008, to request that their MCBs be contributed according to a ratio of one new KBC Bank and Insurance Holding Company share for one MCB. MCBs which have not been contributed by their holders will be converted automatically into new KBC Bank and Insurance Holding Company shares at maturity. This will result in the number of KBC Bank and Insurance Holding Company VV shares increasing by 2 649 348.

On 16 November 1998, the Board of Directors of the KBC Bank and Insurance Holding Company decided (as modified by the decisions of 26 November and 9 December 1998) to proceed to the issue of warrants entitling holders of bonds issued (for an amount of 950 000 000 German marks, maturing on 10 December 2005) by KBC International Finance (Curaçao) to contribute them during the life of the bonds to the capital of the KBC Bank and Insurance Holding Company at a subscription price which was initially set at 3 225 Belgian francs (converted, 79.95 euros) per new share to be issued. The maximum number of new KBC Bank and Insurance Holding Company shares to be issued on the basis of this initial subscription price comes to 6 077 261, or 2.05% of the total number of shares outstanding at the time of issue. These bonds were placed via the international capital market.

▮ Amount by which capital may be increased

The authorization to increase capital may be exercised until 27 April 2005 for an amount of 198 206 660.76 euros.

## c Shareholders

As appears from the notifications received pursuant to the law of 2 March 1989 on the disclosure of major participations in listed companies and the regulation of public takeover bids, and to Articles 631 and 632 of the Companies Code, the shareholder structure is as follows:

Law of 2 March 1989

On 11 June 1998, Almanij, acting in its own name and as agent for a number of associated companies, disclosed that it had a shareholding of 69.93%. At that time, there were 295 412 290 KBC Bank and Insurance Holding Company shares and 1 318 505 1993/1996-2003 MCBs (which, on conversion, entitle the holder to ten KBC Bank and Insurance Holding Company shares per MCB) in circulation.

A breakdown of this participation is given in the table below.

This notification was made in consequence of the creation of the KBC Bank & Insurance Group within the Almanij Group.

Companies Code

From the notifications received pursuant to the Companies Code, further shareholdings at 31 December 2002 are mentioned in the table.

Together, these holdings represent 1 918 979 shares, or 0.63% of a total of 302 239 200 shares in circulation.

In 2002, 6 282 939 KBC Bank and Insurance Holding Company shares were sold from KBC Insurance's securities portfolio for a price of 200 172 171.31 euros.

As a result of the share-repurchase authority granted by the general meeting of shareholders on 27 April 2000, 26 April 2001 and 25 April 2002, the KBC Bank and Insurance Holding Company bought back a total of 2 021 828 of its own shares during the 2002 financial year for a purchase price of 76 984 457.65 euros. When account is taken of the shares bought back during the previous financial years, the KBC Bank and Insurance Holding Company now holds 5 397 474 of its own shares, which represented 1.79% of the issued share capital at year-end 2002.

## Note 3: Creditors

'Amounts payable at more than one year' relate to an issue of Medium-Term Notes in 2000 (via KBC IFIMA) and the funding of the KBC Stock Option Plan for personnel. The limited increase in this heading is attributable to the funding of the KBC Stock Option Plan for personnel launched in 2002.
'Amounts payable within one year' are accounted for primarily by outstanding commercial paper and dividends to be paid.

## Note 4: Charges

At the start of 2002, a number of support services were transferred to the KBC Bank and Insurance Holding Company (including the marketing, communication, logistics and IT divisions) and a cost-sharing structure was set up to allocate the cost of these services amongst the Group companies based on objective criteria. In 2002, total costs shared amounted to 154.7 million euros, which accounts for the bulk of the increase in a number of headings, including 'Services and sundry goods' and 'Remuneration, social security charges and pensions'.
The remaining charges (relating to holding-company activities that are not covered by the cost-sharing structure) are debt-service charges and expenses stemming from KBC Group activities relating to acquisitions and external communication and include staff charges, fees, travel expenses and the cost of publications.

## Note 5: Income

'Other operating income' has to do with the recovery of operating expenses incurred by the above-mentioned cost-sharing structure. The other income of the KBC Bank and Insurance Holding Company is accounted for mainly by dividends, which can be broken down as follows for 2002 (in millions of EUR):

| | |
|---|---|
| KBC Bank | 343.7 |
| KBC Insurance | 187.1 |
| KBC Asset Management | 9.4 |

### SHAREHOLDER STRUCTURE ON 11-06-1998 (NOTIFICATION IN ACCORDANCE WITH THE LAW OF 2 MARCH 1989)

| | Address | Number of shares and MCBs |
|---|---|---|
| Almanij NV | Schoenmarkt 33, BE-2000 Antwerp | 202 051 390 shares; 458 216 MCBs |
| KBC Insurance NV | Waaistraat 6, BE-3000 Leuven | 7 082 060 shares; 43 410 MCBs |
| HSA-Spaarkrediet NV | Mechelsesteenweg 180, BE-2018 Antwerp | 817 380 shares; 8 663 MCBs |
| Fidelitas NV | Van Eycklei 14, BE-2018 Antwerp | 484 180 shares; 2 500 MCBs |
| Secura NV | Montoyerstraat 12, BE-1040 Brussels | 70 290 shares; 100 MCBs |
| Delphi NV | Van Eycklei 14, BE-2018 Antwerp | 10 000 MCBs |
| Delphi Leven NV | Van Eycklei 14, BE-2018 Antwerp | 37 980 shares |
| AVM NV | Zwartzustersvest 21, BE-2800 Mechelen | 18 950 shares |
| Maatschappij voor Brandherverzekering CV | Minderbroedersstraat 8, BE-3000 Leuven | 2 690 shares; 11 MCBs |
| CBC Banque SA | Grote Markt 5, BE-1000 Brussels | 430 MCBs |

### SHAREHOLDER STRUCTURE ON 31-12-2002 (NOTIFICATION IN ACCORDANCE WITH THE COMPANIES CODE)

| | Address | Number of shares |
|---|---|---|
| KBC Bank NV | Havenlaan 2, BE-1080 Brussels | 154 661 |
| Centea NV | Mechelsesteenweg 180, BE-2018 Antwerp | 1 000 000 |
| KBC Securities NV | Havenlaan 12, BE-1080 Brussels | 29 900 |
| KBC Financial Products Brussels NV | Havenlaan 12, BE-1080 Brussels | 724 418 |
| Assurisk SA | Avenue de la Gare 8-10, LU-1610 Luxembourg | 10 000 |



## GENERAL INFORMATION

### [General information on the KBC Bank and Insurance Holding Company]

Name
KBC Bank and Insurance Holding Company NV

Established
9 February 1935 as
the Kredietbank NV
the present name dates
from 4 June 1998

Registered office
Havenlaan 2, BE-1080 Brussels

Brussels Trade Register
77 445

Legal form
'*Naamloze vennootschap*' (public limited company) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company registered with the Belgian Banking and Finance Commission.

Life
Indefinite

Object
The company is a financial holding company which has as object the direct or indirect holding and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions (Article 2 of the Articles of Association).

### [Documents open to public inspection]

The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court.

The annual accounts have been filed with the National Bank of Belgium. Decisions concerning the appointment and dismissal of members of the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press.

Copies of the company's annual reports are available at its registered office. They are forwarded annually to the holders of registered shares and to those who have applied for a copy.

### [General Meeting of Shareholders]

Each year, at the registered office of the company or elsewhere, as indicated in the convening notice, a general meeting is held on the last Thursday in April or, if that day is a legal holiday, on the last business day immediately preceding it, at 11 a.m. To be admitted to the general meeting, holders of bearer shares or bonds must deposit these securities at least four business days prior to the meeting at the registered office of the company or elsewhere, as indicated in the convening notice.

The holders of registered shares or bonds are likewise required to notify the company in writing at its registered office and within the same time constraints of their intention to attend the general meeting.
Bondholders are entitled to attend the general meeting, but they have only advisory voting capacity.

Valérie Martens
International Training Co-ordinator
International Training and Communication Department
KBC Bank

*'KBC has taken on the Central European challenge, and in its co-operation with the region demonstrates its continuing respect for the specific characteristics of each country and each culture.'*

# INTERNATIONAL PRESENCE OF THE KBC GROUP

**This table provides a clear overview of the international network of KBC Bank, as well as the main subsidiaries, sub-subsidiaries and participating interests of the KBC Group in Belgium and abroad.**

## BELGIUM

ADD
Almarisk
Antwerpse Diamantbank
CBC Banque
Centea
Fidea
Fin-Force
International Factors
KBC Asset Management
KBC Bank
KBC Financial Products Brussels
KBC Investco
KBC Lease
KBC Securities
KBC Insurance
Secura

## CENTRAL EUROPE*

Agropolisa (Poland)
Argosz (Hungary)
ČSOB (Czech Republic and Slovakia)
ČSOB Pojišt'ovna (Czech Republic)
ERGO Poist'ovňa (Slovakia)
K&H Bank (Hungary)
K&H Life (Hungary)
Kredyt Bank (Poland)
Nova Ljubljanska banka (Slovenia)
Patria Finance (Czech Republic)
Warta (Poland)

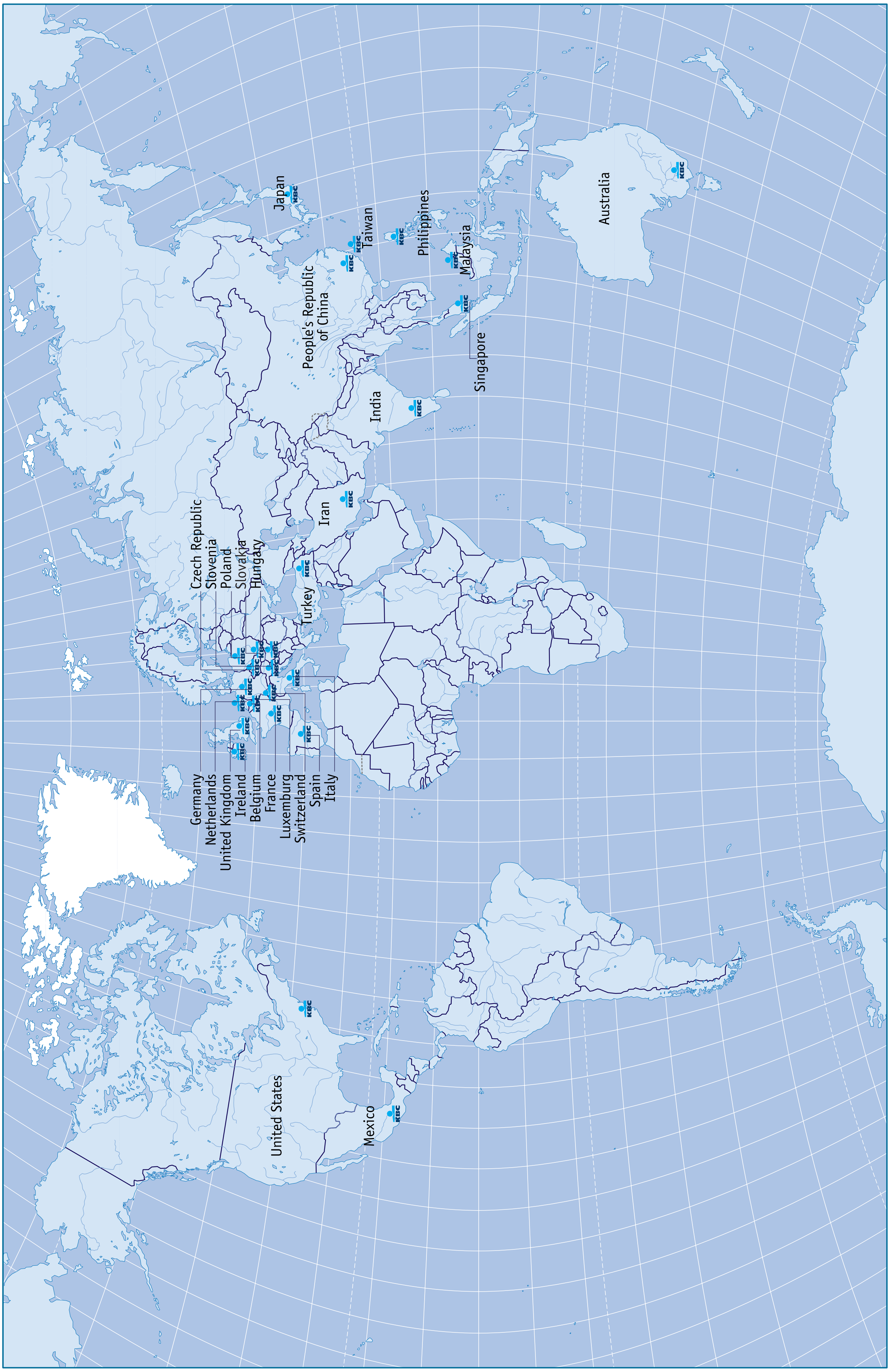
## REST OF EUROPE

Assurisk (Luxemburg)
Banque Diamantaire Anversoise (Suisse) (Switzerland)
FBD (Ireland)
IIB Bank (Ireland)
KBC Asset Management Limited (Ireland)
KBC Bank (branches in France, the UK, Ireland and the Netherlands; representative office in Turkey; network desks in Italy and Spain; structured finance units in Ireland and the UK)
KBC Clearing (Netherlands)
KBC Bank Deutschland (Germany)
KBC Finance Ireland (Ireland)
KBC Financial Products (UK, France, Italy, Spain)
KBC IFIMA (Netherlands)
KBC Lease (UK, Netherlands, France, Luxemburg, Germany)
KBC Bank Nederland (Netherlands)
KBC Peel Hunt (UK)
KBC Securities (France, Netherlands)
Lucare (Luxemburg)
VITIS Life (Luxemburg)

## OUTSIDE EUROPE

Antwerpse Diamantbank (India, US, Hong Kong)
KBC Bank (branches in the People's Republic of China, Hong Kong, Malaysia, the Philippines, Singapore, Taiwan and the US; representative offices in India, Iran and Mexico; structured finance units in the US, Hong Kong and Australia; a marketing office in Malaysia)
KBC Bank Singapore (Singapore)
KBC Financial Products (US, Japan, Hong Kong)
KBC Securities (US)

* KBC is also present in Russia, Lithuania and Ukraine via the representative offices and subsidiaries of ČSOB and Kredyt Bank.


Japan
Taiwan
Philippines
Malaysia
Australia
People's Republic of China
Singapore
India
Iran
Czech Republic
Slovenia
Poland
Slovakia
Hungary
Turkey
Germany
Netherlands
United Kingdom
Ireland
Belgium
France
Luxemburg
Switzerland
Spain
Italy
United States
Mexico

ELKE BETEN
Score Manager, Credit Policy
KBC Bank

*‘Plenty of room for new ideas, a great team spirit and a rapid flow of information. The latter is greatly appreciated by employees, especially when something important happens.’*

# ADDITIONAL INFORMATION

## QUARTERLY RESULTS FOR 2001 AND 2002

### CONSOLIDATED RESULTS, KBC GROUP*

| (In millions of EUR) | 1Q 2001 | 2Q 2001 | 3Q 2001 | 4Q 2001 | 1Q 2002 | 2Q 2002 | 3Q 2002 | 4Q 2002 |
|---|---|---|---|---|---|---|---|---|
| Banking | 1 283.7 | 1 105.0 | 1 164.6 | 1 424.0 | 1 413.4 | 1 457.4 | 1 467.6 | 1 417.3 |
| Net interest income | 608.3 | 577.8 | 632.4 | 722.7 | 737.2 | 778.6 | 814.6 | 715.7 |
| Dividends | 14.3 | 74.5 | 11.2 | 20.7 | 9.7 | 101.3 | 23.4 | 23.4 |
| Result, equity method | 8.0 | -1.8 | -8.9 | 5.6 | 1.1 | -0.5 | 4.3 | 2.5 |
| Profit (Loss) on financial transactions | 264.3 | 158.4 | 200.2 | 261.9 | 247.0 | 184.2 | 294.4 | 288.0 |
| On currency dealing and securities trading | 199.2 | 124.2 | 134.3 | 151.8 | 170.6 | 161.0 | 101.3 | 182.4 |
| Realized gains and losses | 65.0 | 34.2 | 65.9 | 110.1 | 76.5 | 23.2 | 193.1 | 105.6 |
| Net commission and other operating income | 388.8 | 296.0 | 329.7 | 413.1 | 418.4 | 393.8 | 330.9 | 387.7 |
| Insurance | 191.6 | 204.4 | 185.3 | 228.1 | 212.5 | 209.7 | 229.4 | 200.8 |
| Earned premiums, net of reinsurance | 694.7 | 633.2 | 516.2 | 664.4 | 941.3 | 913.4 | 644.9 | 656.2 |
| Net technical charges | -418.0 | -679.8 | -6.6 | -856.5 | -880.9 | -420.6 | -275.8 | -696.7 |
| Value adjustments, unit-linked life assurance | 242.8 | -92.5 | 471.0 | -252.0 | 11.2 | 436.9 | 307.2 | -75.5 |
| Investment income and charges | -84.0 | 250.2 | -329.3 | 419.8 | 149.8 | -286.2 | -135.8 | 239.0 |
| Realized gains and losses | 60.6 | 7.9 | 56.2 | 58.8 | 67.3 | 8.0 | 61.2 | 61.5 |
| Value adjustments, unit-linked life assurance | -242.8 | 92.5 | -471.0 | 252.0 | -11.2 | -436.9 | -307.2 | 75.5 |
| Result, equity method | -1.1 | 0.7 | 5.0 | 0.3 | 2.3 | 3.0 | -3.9 | 2.2 |
| Holding-company activities | -11.1 | -4.3 | -7.4 | -6.5 | -4.7 | -0.9 | -5.7 | -4.0 |
| **GROSS OPERATING INCOME** | **1 464.2** | **1 305.0** | **1 342.5** | **1 645.6** | **1 621.2** | **1 666.1** | **1 691.3** | **1 614.1** |
| Banking | -829.9 | -852.6 | -778.8 | -1 048.7 | -924.0 | -973.6 | -884.4 | -968.6 |
| Staff charges | -459.2 | -458.4 | -408.5 | -516.8 | -495.7 | -512.7 | -483.9 | -490.1 |
| Operating charges and depreciation on tangible fixed assets | -370.7 | -394.2 | -370.3 | -531.9 | -428.3 | -460.9 | -400.5 | -478.5 |
| Insurance | -103.1 | -101.6 | -95.6 | -106.7 | -114.0 | -107.4 | -127.0 | -108.2 |
| Acquisition costs | -84.3 | -81.0 | -75.4 | -82.8 | -96.6 | -88.2 | -93.4 | -83.3 |
| Operating charges | -18.8 | -20.6 | -20.1 | -23.9 | -17.4 | -19.2 | -33.6 | -24.8 |
| Holding-company activities | -0.6 | -1.2 | -1.0 | -1.0 | -0.9 | -0.5 | -1.2 | -1.9 |
| **GENERAL ADMINISTRATIVE EXPENSES** | **-933.6** | **-955.4** | **-875.4** | **-1 156.4** | **-1 038.8** | **-1 081.5** | **-1 012.6** | **-1 078.7** |
| **OPERATING RESULT** | **530.6** | **349.6** | **467.1** | **489.3** | **582.3** | **584.6** | **678.7** | **535.4** |
| - banking | 453.8 | 252.3 | 385.8 | 375.3 | 489.4 | 483.8 | 583.2 | 448.7 |
| - insurance | 88.5 | 102.8 | 89.7 | 121.4 | 98.5 | 102.2 | 102.4 | 92.6 |
| Value adjustments | -82.5 | -35.9 | -159.9 | -89.1 | -75.6 | -180.9 | -249.1 | -157.4 |
| Write-downs on and provisions for credit risks | -58.7 | -23.5 | -78.9 | -160.4 | -88.4 | -85.3 | -131.3 | -160.3 |
| Value adjustments on securities | -23.4 | -5.2 | -85.0 | 24.9 | 7.7 | -77.3 | -141.5 | 8.9 |
| Net allocation to the contingency funds | -1.4 | -5.2 | 2.8 | 3.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions for other liabilities and charges | 0.9 | -2.0 | 1.2 | 42.6 | 5.1 | -18.4 | 23.7 | -6.0 |



| (In millions of EUR) | 1Q 2001 | 2Q 2001 | 3Q 2001 | 4Q 2001 | 1Q 2002 | 2Q 2002 | 3Q 2002 | 4Q 2002 |
|---|---|---|---|---|---|---|---|---|
| Amortization of goodwill on consolidation | -2.6 | -2.6 | -2.6 | -2.6 | -2.6 | -6.8 | -4.1 | -7.0 |
| Non-recurring result, insurance | 7.4 | 5.4 | 2.0 | -7.0 | -2.8 | -4.1 | -37.3 | 53.6 |
| Extraordinary result | 83.3 | 8.8 | -27.3 | 12.9 | 2.2 | 42.2 | -4.4 | -35.8 |
| **PROFIT (LOSS) BEFORE TAX** | **536.2** | **325.2** | **279.3** | **403.5** | **503.6** | **435.0** | **383.8** | **388.7** |
| - banking | 453.7 | 229.0 | 192.7 | 295.1 | 414.1 | 338.9 | 326.2 | 257.3 |
| - insurance | 95.5 | 107.7 | 87.6 | 115.9 | 95.0 | 97.5 | 64.6 | 137.4 |
| Income taxes | -133.2 | -57.3 | -82.4 | -92.8 | -135.5 | -114.1 | -195.9 | -65.7 |
| - banking | -112.6 | -42.1 | -76.5 | -81.3 | -126.0 | -113.2 | -165.6 | -56.6 |
| - insurance | -19.9 | -13.3 | -5.1 | -12.8 | -8.6 | -0.8 | -29.7 | -8.5 |
| **CONSOLIDATED PROFIT** | **403.0** | **267.9** | **196.9** | **310.7** | **368.1** | **320.9** | **188.0** | **323.1** |
| Minority interests | -47.5 | -38.1 | -38.2 | -32.2 | -52.2 | -40.9 | -36.5 | -36.3 |
| CONSOLIDATED PROFIT, Group share | 355.4 | 229.8 | 158.7 | 278.4 | 315.9 | 280.0 | 151.5 | 286.8 |
| - banking | 292.6 | 149.8 | 72.9 | 182.4 | 236.2 | 185.3 | 122.4 | 164.2 |
| - insurance | 76.6 | 93.4 | 87.7 | 102.2 | 86.1 | 96.3 | 36.5 | 129.1 |
| - holding-company activities | -13.7 | -13.4 | -1.9 | -6.2 | -6.4 | -1.6 | -7.4 | -6.4 |

* At the end of 2001, the Fund for General Banking Risks (FGBR) was transferred to the reserves directly, without crossing the profit and loss account. The reference figures for the previous periods are shown in this table as published in previous interim reports.

## PENDING LITIGATION

### [Judicial inquiries]

In the so-called 'KB Lux case', a number of employees of KBC Bank NV and its sister company, Kredietbank SA Luxembourgeoise, together with the President of the Executive Committee of KBC Bank NV have been placed under suspicion. The President and the members of staff concerned deny the allegations and will refute them in court.

The Belgian judicial authorities have instituted an inquiry into transactions in Italian bonds involving the foreign tax credit. The investigating magistrate has placed some (former) members of the Executive Committee, senior managers and staff of KBC Bank NV under suspicion. KBC Bank NV is firmly convinced that the actions of these persons were lawful in every respect and that the legality of these transactions will be established in court.

### [Disputes no longer affecting the profit and loss account]

In the above-mentioned KB Lux case, the Belgian tax authorities claimed withholding tax from KBC Bank NV because they did not accept the validity of the non-resident status claimed by a number of customers during a brief period in the past. In this case too, KBC Bank NV is convinced that the arguments advanced by the tax authorities are not viable and that the court will rule in its favour. Nonetheless, for policy reasons, KBC Bank NV has opted to pay the disputed withholding tax, without prejudice to any of its rights to pursue the matter before a court of law.

Like all other Belgian banks, KBC Bank NV has, since 1992, been involved in a discussion with the tax authorities about the exact method that should be used to calculate the grossing-up of a foreign tax credit. Two Courts of Appeal and the Court of Cassation have already ruled in favour of the method used by the banks. Consequently, KBC Bank NV will endeavour to expedite the proceedings, and expects a favourable decision to be returned.
For policy reasons, KBC Bank NV has opted to pay the disputed tax, without prejudice to any of its rights to pursue the matter before a court of law.

KBC Insurance NV is involved in a dispute with the Belgian tax authorities concerning the way in which the former ABB calculated technical provisions for its life assurance activities (ABB used a technical rate of 4%

instead of the 4.75% used to calculate the inventory provisions, or the guaranteed rate of return for the persons insured). The tax authorities claim that the difference between these two calculations is taxable. After its initial appeal to the tax authorities was dismissed, KBC Insurance NV appealed to the courts and formed a provision of 55.8 million euros. The court recently dismissed the above-mentioned claim by the tax authorities, but they have appealed the decision.

As provisions have either already been formed or sums paid, these disputes can have no further influence on the profit and loss accounts of either KBC Bank NV or KBC Insurance NV.

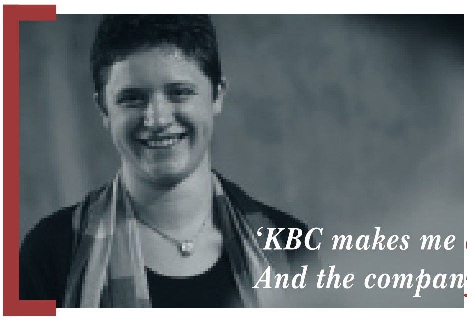
## [Other litigation]

Like a number of other banks, KBC Bank NV is involved in a dispute with the Belgian VAT Administration concerning specific aspects of the way in which the VAT deduction percentage is calculated. This is used to determine how much VAT the bank can recover. In previous tax audits, however, the bank's method of calculation had been approved. The courts have in the meantime found that one of the other banks involved acted correctly, a decision that was not appealed by the competent authorities within the requisite period. KBC Bank NV has also taken this matter to court and likewise expects a favourable decision to be returned.

Through its Czech subsidiary ČSOB a.s., KBC Bank NV is involved (as plaintiff/claimant or defendant) in a number of civil and criminal cases arising from an agreement concluded with Investicní a Poštovní banka a.s., on the sale of the business of that bank, which had been placed under forced administration a few days prior to this transaction. This same transaction has led Nomura Principal Investment Plc. to file a complaint against ČSOB and KBC Bank NV for unfair competition. The cases will be dealt with by the Czech court and/or via arbitrage.

The Group companies are subject to a number of other claims and are involved in a number of other legal proceedings which have arisen in the ordinary course of their business. Although the outcome is uncertain and some claims are for relatively large amounts, the Group's management does not believe that the liabilities arising from these claims will adversely affect the Group's consolidated financial position or results.





KATLEEN DEBRUCKER
Assistant, Accounting and Reporting
Back-Office & Credit Management Division
KBC Bank

***'KBC makes me believe in my job, and that boosts my self-confidence. And the company itself isn't afraid of making investments.'***

# INFORMATION FOR SHAREHOLDERS AND THE GENERAL PUBLIC

## GENERAL PUBLIC

Information on products, services and publications of the KBC Group can be obtained from the KBC-Telecenter on weekdays between 8 a.m. and 10 p.m. and on Saturdays and bank holidays between 9 a.m. and 5 p.m.
Tel. + 32 78 152 153 (Dutch),
Tel. + 32 78 152 154 (French, English, German)
Fax + 32 3 283 29 50
E-mail *kbc.telecenter@kbc.be*

If there are any problems regarding service, or if your branch or agent is unable to help you, please contact:

Bank
KBC Bank NV
Customer Service Department
Brusselsesteenweg 100
BE-3000 Leuven
Tel. + 32 78 15 20 45
Fax + 32 16 86 30 38
E-mail *clientenservice@kbc.be*

Insurance
KBC Insurance NV
Ombudsman
Waaistraat 6
BE-3000 Leuven
Tel. + 32 16 24 37 38
Fax + 32 16 24 37 37
E-mail *ombudsdienst@verz.kbc.be*

## SHAREHOLDERS

Information concerning the strategy and results of the KBC Group is available from Luc Cool, Investor Relations Manager, or Nele Kindt, Investor Relations Assistant.
KBC Bank and Insurance Holding Company
Strategy & Expansion Division – SEE
Havenlaan 2
BE-1080 Brussels
Tel. + 32 2 429 49 16
Fax + 32 2 429 44 16
Web site *www.kbc.com*
E-mail *investor.relations@kbc.be*

## FINANCIAL CALENDAR

- Publication of results for the 2002 financial year
  5 March 2003
  General Meeting of Shareholders
  24 April 2003
  Dividend payment
  28 April 2003
- Publication of first-quarter results for 2003
  22 May 2003
- Publication of second-quarter results for 2003
  3 September 2003
- Publication of third-quarter results for 2003
  20 November 2003

For the most up-to-date version of the financial calendar, see the KBC Web site.

## WEB SITE

The annual, half-year and quarterly reports, as well as press releases and other financial information can be found on KBC's Web site at *www.kbc.com.*

**Discussion leaders:**
Geert Goossens
Communication Division
Koen Maegherman
Organization Division

**Report:**
Bruno Comer
Communication Division
Conny Janssens
Communication Division
Patrick Wolfs
Communication Division

**People interviewed:**
Elke Beten
Score Manager, Credit Policy
KBC Bank
Filip Bonte
Branch Manager
KBC Bellegem
Willy Breesch
Chairman of the Board of Directors,
KBC Bank and Insurance Holding Company
Herbert D'Haese
Head, Commercial Sales – Treasury & Capital Markets
KBC Bank
Geert De Kegel
Executive Director, Retail/SME Distribution
ČSOB, Czech Republic
Katleen Debrucker
Assistant, Accounting and Reporting
Back-Office & Credit Management Division
KBC Bank
Ine Ghekiere
Staff Coaching Adviser – Personnel Department
KBC Insurance
Kristel Grupping
Branch Manager
KBC Private Banking, Herentals Branch
Ertan Karakoruk
Commercial Assistant
KBC Hasselt-Genk Corporate Branch
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