KBC Bank & Insurance Group

Report on Activities - 1999

KBC
Banking & Insurance

Contents

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

Together, this volume 'Report on Activities - 1999' and the volume entitled, 'Annual Accounts and Additional Information - 1999', make up the 1999 annual report for the KBC Bank and Insurance Holding Company NV.

If you have received only one of the volumes, you can order the other one from us at the address indicated at the back of each volume.

On 11 April 2000, 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 purposes of the above procedure, this annual report must be accompanied by a transaction memorandum in order to constitute a prospectus in the sense 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.

KBC Bank & Insurance Group
Report on Activities - 1999

KBC Bank & Insurance Group profile

The fundamental objective of the KBC Bank and Insurance Holding Company is to be an independent, medium-sized and highly profitable bancassurance institution in Europe, supported by a strong position on its home market and the steady expansion of its activities abroad. The bancassurance business that will be carried on primarily in Belgium and in Central Europe, the provision of services to corporate customers, the market activities and the asset management business will each make an important contribution to the company's results. By means of a broad diversification of activities, comprehensive risk management and a sound balance sheet, the KBC Group will strive to achieve a sustained high level of profitability and earnings growth, as well as high ratings.

Financial objectives

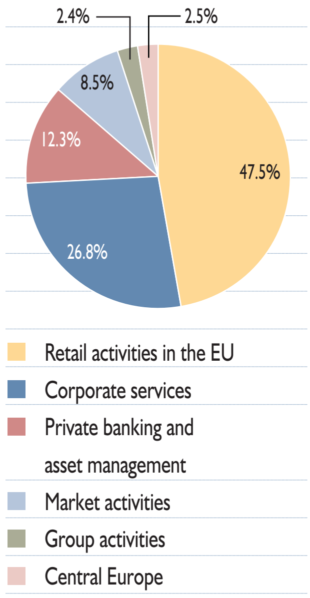
- Return on equity of at least 15%
- Annual increase in earnings per share of at least 10%
- No (or only temporary and very limited) dilution of earnings per share on acquisitions
- Payout ratio of around 40%
- Tier-1 ratio of at least 7% and 'AA' ratings

Strategic priorities

- Integration of group activities and achievement of merger-related synergies
- Development of a second home market in Central Europe
- Strengthening of the position in the euro zone and in specific areas of activity
- Implementation of the Internet strategy

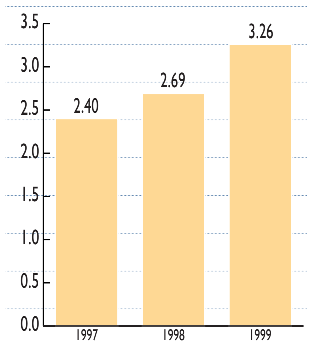
Over the past few years, the KBC share price has followed a favourable trend: annual return over the past five years comes to 30.0%, compared with 22.4% for the BEL 20 and 28.9% for the FTSE E300 Financials, and this despite the drop in the share price in 1999.
At the close of last year, the KBC share was trading at 16.4 times earnings for the 1999 financial year and at 1.6 times the net asset value as at 31 December 1999.

Contribution, main areas of activity



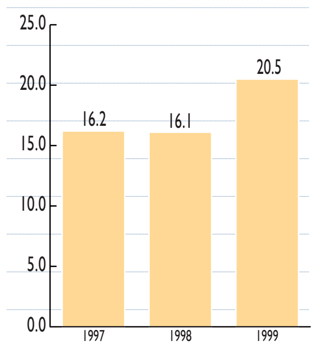
Earnings per share

(in EUR)



Return on equity

(in %)



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

A year marked by a good deal of hard work

1999, the first full financial year for the KBC Group since it was created through a number of mergers in mid-1998, was a year marked by a good deal of hard work. Not only were there the usual day-to-day challenges to face, but we also had to contend with the introduction of the euro and the preparations for the year 2000. On top of this, there was the merger itself and all the practical details that had to be attended to, such as building a new computer platform and integrating a good many of the branches, not to mention the expansion of the Group's activities, which entailed a number of major acquisitions in Central Europe and other areas of the globe.

It is, without doubt, thanks to the unstinting efforts of our employees that all these challenges were able to be met and that we can look back on a good year. In 1999, not only were satisfactory financial results achieved, but the foundations were also laid for the continued development of our Group in a number of areas. It is therefore only fitting that we start by expressing our thanks and appreciation to all our personnel for their dedication, their professionalism and their loyalty to the KBC Group during an important stage in its development.

The successful launch of our specific bancassurance concept

Returning briefly to the areas mentioned above that required a good deal of hard work, we are pleased to be able to point to the many commercial successes achieved in the field of bancassurance. In spite of the complications that inevitably accompanied the merger, our market share grew in virtually all the major market segments, particularly in customer deposits, mortgage lending, life assurance and investment funds, a segment in which we became market leader with a share of 28.2%. Among other things, these achievements attest to the successful launch of our specific bancassurance concept, which is based on close collaboration between our bank branches and independent insurance agents.

These achievements were marred however, as far as the financial results are concerned, by the persistent pressure on the interest margin. This was accounted for by the generally low level of interest rates and by what were exceedingly low margins on lending, given the concern to obtain a reasonable return on the capital employed. While these narrow lending margins may keep the Belgian market, partly on account of its small scale, from being 'invaded' any time soon by foreign competitors, whether via the Internet or otherwise, they have become unacceptable on the whole. Consequently, one of the objectives of the KBC Group in the years ahead will be to obtain a better return on its equity capital, first of all in lending.

Otherwise, write-downs on and provisions for domestic loans remained at a good level and the overall quality of the loan portfolio was sound, despite the dioxin crisis and KBC's sizeable share of the market in lending to the agricultural and related sectors. By the end of the year, some of the provisions that had been set aside at the end of June were already able to be written back, as the financial and economic consequences of the crisis were not as bad as had been expected. Our international lending activity was faced with bigger loan-loss provisions than in previous years, although it must be said that the performance of our loan portfolio in those years had been outstanding.

The introduction of the euro

By and large, the introduction of the euro was handled well. Building on the important position achieved by the former Kredietbank on the ECU market, KBC managed to acquire a substantial share of the euro payments market. Moreover, the impact the introduction of the euro had on income from exchange transactions with clients was less significant than had been expected. The economic recovery and the increase in trading with countries outside the euro zone were undoubtedly a contributing factor here.

The transition to the year 2000

Of the vast amount of IT work that was carried out, the efforts required for the seamless transition to the year 2000 should not be forgotten. The fact that all the Y2K-related work *is behind us now is a more than welcome development, given the huge strain that developing a KBC IT platform and taking up the immense challenge of e-commerce is placing on our IT capacity. However, we have not hesitated to call on external specialists for help and advice whenever necessary.*

Merging the banking and insurance businesses

In 1999, much of our attention and energy was devoted to merging the banking and insurance businesses. Besides a million and one other things, this entailed the standardization of procedures and terms offered to customers, the actual physical integration of the central administrative services of the former banks and insurance companies, the consolidation of branches, the migration of bank and insurance customers and their products to KBC systems and the development of the common systems themselves, all of which has required far more work than outsiders could imagine. We are particularly pleased by the fact that the merger has so far proceeded according to plan and that activities such as the integration of the branches (about thirty were consolidated in 1999 and roughly 600 in all are scheduled to be merged over the next few years) have got off to a good start, judging partly by the fact that there has been no significant loss of customers to date. The year 2000 will be another very busy year for merger-related activity. Given the experience we gained in 1999, however, we are confident about our ability to handle the further work that will be required.

Central Europe

While all this was going on, we still managed to devote a good deal of attention to expanding our Group. Naturally, we did not have a hand in setting the agenda for the privatization of financial institutions in Central Europe, for instance, but this was a region which captured our full attention. Indeed, it is part of our strategy to capture additional 'home markets' in Central Europe, as we are convinced that this part of the world will undergo significant expansion in the next five to ten years and that the financial sector, in particular, will become considerably more important in the economy. However, our strategy is also prompted by the fact that, in these countries, given their size and the size of their financial sector, KBC is effectively able to acquire significant market share. We do, of course, realize that our activities in Central Europe still expose us to an above-average degree of risk, and we are taking pains to monitor those risks closely.

KBC has now acquired a large majority shareholding in ČSOB, the best of the Czech banks in terms of quality, and one which also has a presence in Slovakia. In addition, we have raised our participation in the Kredyt Bank in Poland and in K&H Bank in Hungary, although we have not - yet - acquired a majority stake in those banks. The risks described above which are inherent in activities carried on in the emerging markets actually manifested themselves in Hungary, where a drastic change in the management team and additional write-downs on certain assets proved necessary at K&H. From September on, however, the operating results of this Hungarian bank started to head up.

Western Europe

In all of the countries referred to above, we have also stepped up our presence in the insurance sector by means of either acquisitions (Czech Republic and Poland) or organic growth (Hungary). These steps were in each instance taken in close collaboration with our local bank subsidiary with a view to developing bancassurance activities. In Western Europe, we focused on France, where we upped our participation in Crédit Commercial de France to 18.05% of its share capital. CCF is one of the soundest financial institutions in the euro zone, and our shareholding may lead to highly beneficial co-operation being established in various areas.

Specific activities

Our interest in developing specific activities was reflected in the sizeable increase in our participation in the Antwerpse Diamantbank, an institution that finances approximately one-fourth of the world diamond trade, as well as by our acquisition of certain of D.E. Shaw's activities (New York, London, Hong Kong and Tokyo) in the market for convertible bonds and equity derivatives.

All the acquisitions we made were able to be funded without having recourse to our shareholders, thanks in part to the issue of non-voting preference shares paying a fixed rate of interest. This issue can be used to supplement Tier-I capital up to a limit of 15%. Our Group profit went up by 12.4%, disregarding the widening of the scope of consolidation that resulted from the above-mentioned acquisitions, among other things, and by 21.6% if the broader scope of consolidation is taken into account. Earnings per share went up along more or less the same lines, namely by 12%, disregarding the increase in the scope of consolidation, and by 21.2%, otherwise. In short, it was a good year both for the banking business, which raised its contribution to the holding company's profit by 23.4% from 579.0 million euros to 714.7 million euros, and for the insurance business, which saw its contribution go up by 19.7% from 226.7 million euros to 271.3 million euros without any significant impact due to acquisitions.

We will therefore be proposing to the General Meeting of Shareholders that the dividend be raised by 12.5%, from 1.093 euros to 1.23 euros per share. Accordingly, our main financial objectives with regard to earnings growth (minimum 10% per year) and return on equity (minimum 15%, compared with 20.5% for 1999) will have been achieved.

The performance of the KBC share

Nevertheless, the performance of the KBC share was disappointing in 1999, even though it still outperformed the Belgian stock market index (and the FT Financials index) when measured over the past three to five years. There were a number of reasons for the fall in the share price, namely the level of interest rates and the interest-rate sensitivity of both the Brussels stock market generally and the KBC share in particular, the not-altogether-satisfactory operating results turned in for the first half-year, the fact that both the merger and the investments in Central Europe will only have any significant effect on profitability after a certain period of time and the whole atmosphere created by the ongoing investigation into KBC's alleged involvement - together with its sister bank, Kredietbank SA Luxembourgeoise - in tax evasion. We are, however, confident about the outcome of the investigation and about any possible court ruling in the matter. Ultimately, we do not expect our institution to suffer any material loss as a result of all this.

Outlook

In 2000, we will continue to devote attention to developing our bancassurance business on our home market. This will entail focusing efforts on the immensely important new field of Internet banking. In addition to the merger operations, whose impact in terms of tying up personnel and systems we touched upon above, we will also continue to work on developing our overall strategy, in which Central Europe will continue to play an important part. On top of this, we plan to focus on building up a bigger presence in the euro zone, one in keeping with our size and which may therefore entail our entering into co-operation agreements and/or alliances. Owing partly to the good overall state of the economy in 'Euroland', which should be sustained for a number of years yet, provided a balanced economic policy is pursued, we face both the year 2000 and future years with confidence.

Remi Vermeiren	*Willy Breesch*
President of the Executive Committee	*Chairman of the Board of Directors*

Group structure and management

A financial holding company, the KBC Bank and Insurance Holding Company NV co-ordinates the activities of KBC Bank NV and KBC Insurance NV. It is an active shareholder, with responsibility for such matters as the Group's strategy and major investments, the allocation of capital, profitability requirements and the integration of its bank and insurance subsidiaries. KBC Bank NV and KBC Insurance NV are competent to act in all matters specific to banking and insurance, respectively.

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 the appointed managing directors and which acts within the framework of the general strategy defined by the Board of Directors.

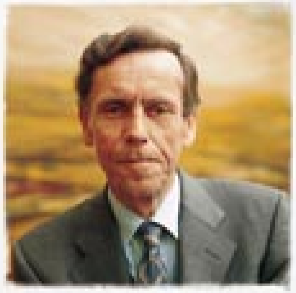
This dual management structure is laid down in the Articles of Association, in the agreement on the autonomy of the banking business concluded among the KBC Bank and Insurance Holding Company, KBC Bank and the Banking and Finance Commission, and in the corresponding agreement on the autonomy of the insurance business concluded among the KBC Bank and Insurance Holding Company, KBC Insurance and the Belgian Insurance Supervisory Authority. The above-mentioned agreements also govern the breakdown of responsibilities and tasks between the Executive Committees of KBC Bank and KBC Insurance and the Boards of Directors of these two institutions.

Board of Directors and Executive Committee
KBC Bank and Insurance Holding Company NV

Board of Directors

All members of the Executive Committee
and
Willy Breesch
Jan Huyghebaert
Jozef Cornu
Jos Daniëls
Rik Donckels
John Goossens
Herwig Langohr
Thomas Leysen
Xavier Liénart
Theo Roussis
Paul Tanghe
Patrick Vanden Avenne
Guido Van Roey
Ferdinand Verdonck
Marc Wittemans

Executive Committee (EC)



Remi Vermeiren
Offices

- President Executive Committee KBC Bank and Insurance Holding Company NV
- President Executive Committee KBC Bank NV
- Control and Accounting, Audit, Compliance and the staff services of KBC Bank NV and the KBC Bank and Insurance Holding Company NV

Alfons Wouters
Offices

- Vice-President Executive Committee KBC Bank and Insurance Holding Company NV
- President Executive Committee KBC Insurance NV
- Non-life Insurance, Personnel and Facility Management, Audit, Control and Compliance, staff services and support services, and the regions in the provinces of Antwerpen and Brabant

Managing Directors

Herman Agneessens

- International
- Treasury & Capital Markets
- Asset & Liability Management

Rudy Broeckaert

- Corporate
- Private Banking
- Organization
- Merger and integration
- Regions in the province of Antwerpen

Willy Duron

- Life Assurance
- IT Insurance and Organization
- Data Processing
- Support services, Reinsurance and International Department
- Regions of Oost- and West-Vlaanderen

Frans Florquin

- Retail
- Remote Banking & Insurance
- Marketing Services
- Marketing Communication
- Corporate branches
- Regions in the province of Brabant
- Chairman, BIBAB Committee

Ghunald Loyaerts

- Payments
- Facility Management
- Regions in the province of Limburg and the Eastern part of Belgium

Theo Peeters

- Financial Group
- Regions in the province of Limburg and the Eastern part of Belgium
- CBC Assurances

Luc Philips

- Investment Banking
- International Credit and Limits
- Asset Management

Clément Selleslagh

- Domestic Credit
- Private Banking branches

Jan Vanhevel

- Bank IT Development
- IT Operations
- Personnel
- Regions in the province of Oost- and West-Vlaanderen

Shareholder information

Key features of the activities in 1999

Retail activities in the EU

Central Europe

Corporate services

Private banking and asset management

Market activities

Group activities

Key figures, results and profitability

Key figures, balance sheet and solvency

7.10 a.m. - Central Station, Antwerp

Shareholder information

Shareholder information

Performance of the KBC share (*)

(in EUR)

KBC

FTSE E300 Financials

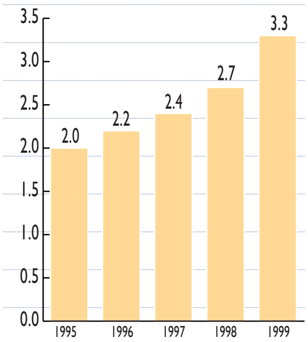
Shareholders, 31 December 1999	In %	No. of shares
Almanij and Group companies		
Almanij	67.86%	202 056 390
KBC Bank & Insurance Group companies (1)	3.11%	9 272 878
Total	**70.97%**	**211 329 268**
Free float	**29.03%**	**86 443 074**
Total number of shares issued		**297 772 342**
Mandatory Convertible Bonds (MCBs)		14 564 877
of which: held by Almanij and KBC Bank & Insurance Group companies		4 909 700

(1) With the exception of shares held by KBC Securities and KBC Derivatives (formerly KBC-Petercam Derivatives).

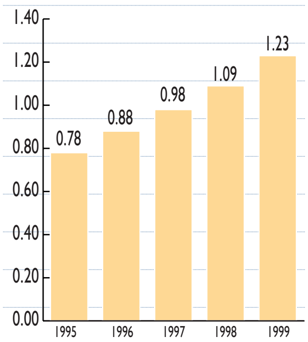
Annual return (price gains and dividends)	KBC	BEL 20	FTSE E300 Financials
1999 (1 year)	-21.1%	-6.3%	-4.5%
1996 - 1999 (3 years)	30.9%	23.6%	33.3%
1994 - 1999 (5 years)	30.0%	22.4%	28.9%

Earnings per share (*)

(in EUR)



Gross dividend (*)



Key figures per share (*) (in EUR)	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999
Number of shares outstanding ('000)	147 107	147 829	151 281	296 905	297 772
Number of shares entitled to dividend ('000)	146 566	147 399	150 845	296 385	297 277
Earnings per share	1.953	2.206	2.417	2.692	3.262
Gross dividend	0.776	0.876	0.975	1.093	1.2300
Net dividend per ordinary share	0.583	0.657	0.731	0.820	0.9225
Payout ratio (1)	40.0%	40.0%	40.3%	40.6%	37.7%
Net asset value per share (2)	-	-	26.9	32.3	33.8
Highest price	20.58	25.97	40.90	84.90	74.15
Lowest price	15.34	19.93	24.98	37.18	44.35
Average price	17.23	23.16	34.49	59.48	57.70
Closing price, financial year	19.93	25.78	38.55	67.43	53.50
P/E ratio, based on closing price	10.2	11.7	15.9	25.0	16.4
Equity market capitalization, in billions of EUR	2.93	3.81	5.83	20.02	15.93
KBC's ranking on the Brussels stock exchange	8	8	7	3	3
Share in average volume traded on Brussels stock exchange	4.0%	3.9%	4.5%	6.4%	5.5%
Average daily volume traded, number of shares	-	129 830	149 020	226 344	211 119
Average daily volume traded, in millions of EUR	-	3.0	5.2	13.9	12.3

(*) Figures through 31 Dec. 1997 relate to the former Kredietbank; the 10-for-1 share split was carried out retroactively.
(1) Total dividend payout / consolidated profit.
(2) Calculation: see key figures, balance sheet and solvency.

Key features of the activities in 1999

Retail activities in the EU

- The merger operations left their mark on activities in 1999. The Head Office departments of the former Kredietbank and CERA Bank, as well as those of the former ABB, Fidelitas and Omniver were effectively integrated into KBC Bank and KBC Insurance, respectively. Work on completing an integrated KBC computer platform proceeded according to plan. The merger of the bank branches also got under way, and plans are to reduce the total number from around 1 500 to 900. By 31 December, thirty-one bank branches had already been merged and 140 branches were ready and waiting for the go-ahead.
- The proprietary ATM networks of the former Kredietbank and the former CERA Bank were linked in June 1999. Consequently, all KBC and CBC customers can now use their bank cards on both the ex-CERA Self-banking machines and the ex-Kredietbank KB-Matic cash dispensers.
- In October, a good portion of the portfolio held by the former Omniver was transferred without difficulty to KBC Insurance's common platform.
- The merger activities have not impaired commercial clout. The KBC Bank & Insurance Group proved able to raise its share of the market in most retail products.
- Since 1 January 1999, the new guaranteed rate of interest has been 3.25% for the traditional KBC Insurance life assurance contracts on the Belgian market.
- In the early part of 1999, KBC Insurance launched a new home insurance policy. An all-risks policy, it only excludes explicitly named perils.
- Irish Life Finance Group (ILFG) became a wholly-owned subsidiary of Irish Intercontinental Bank (IIB) after IIB acquired Irish Life & Permanent's (IL&P) 33.3% stake in that company. Its name has now been changed to IIB Homeloans and Finance Ltd.
- An Internet strategy was devised, and KBC will be expanding its range of Internet services in 2000.

Central Europe

- In two stages, the KBC Bank & Insurance Group took an 82.35% stake in ČSOB (Československá Obchodní Banka), which represents a total investment of more than 1.3 billion euros. In December, KBC Insurance upped its participation in the Czech Chmelařská Pojišt'ovna A.S. to 75.77% via a capital increase, and the name of the company has now been changed to ČSOB Pojišt'ovna.
- KBC Bank raised its stake in the Polish Kredyt Bank to 48.59%, while KBC Insurance took advantage of a capital increase to acquire a 23.3% interest in the Polish non-life insurer Agropolisa.
- KBC Bank acquired about half the 18.19% stake the European Bank for Reconstruction and Development (EBRD) held in the Hungarian Kereskedelmi és Hitelbank (K&H), bringing its overall interest in this last to 32.62%. By means of a capital increase and a public takeover bid at the beginning of 2000, KBC became the majority shareholder with a stake of over 72%.
- KBC Insurance raised its participating interest in the Hungarian Argosz to 95.4% through a capital increase and by buying out a number of minority shareholders.

Corporate services

- The merger has not impaired commercial clout in the corporate segment, either, where KBC Bank posted a 2-percentage-point increase in market share in 1999.
- The introduction of the euro brought about fundamental changes in international payments. KBC Bank managed to distinguish itself quickly as a major payments bank in the euro zone.
- KBC Bank also reinforced its position as main banker in the multinationals segment. At the end of 1999, the Multinationals Division was catering to 110 multinationals, providing tailor-made services.
- KBC Bank reached agreement with IL&P to acquire its 25% shareholding in IIB. This made IIB a wholly-owned subsidiary of KBC Bank.

- KBC Bank upped its interest in the Antwerpse Diamantbank - a niche bank specializing in the Antwerp diamond trade and industry - to 87.17%. The Antwerpse Diamantbank now has additional resources that should enable it to become a leading player on the niche market in international finance for the diamond sector.
- At the beginning of 1999, the activities of CERA Factors, a wholly-owned subsidiary of KBC Bank, were sold to International Factors Belgium (IFB), a company KBC Bank holds a 50% interest in.

Private banking and asset management

- KBC Bank sold its stake in KBC Bank Luxembourg - which was created through the merger of CERABANK LUXEMBOURG, Nédée Luxembourg and BR & Associés - to Kredietbank SA Luxembourgeoise. The participation in KBC Bank (Suisse) was also sold.
- The market in unit-linked life assurance products (so-called 'class-23 products') experienced brisk expansion. At the start of June 1999, the KBC Bank & Insurance Group launched a more extensive product offering. In 1999, 934.5 million euros' worth of unit-linked life assurance policies were sold.
- KBC Bank became the market leader in Belgium in Undertakings for Collective Investment (UCIs), boasting a market share of 28.2%.
- In order to encourage the independent development of institutional asset management, in particular, it was decided to set up a separate legal entity, 'KBC Asset Management NV', in 2000 to handle the management of such vehicles as investment and pension funds.

Market activities

- The regional structure of dealing room activities was expanded in 1999 through the addition of the region of 'Central Europe'. The position of 'Regional Treasurer, Central Europe' was created in 1999 to supervise market activities in that region.
- The dealing rooms' contribution to profit in 1999 was below expectations. In order to limit future earnings volatility, additional risk parameters have been introduced, and the interest rate business in the Brussels dealing room is being restructured.
- At the end of 1999, KBC Bank reached agreement with Petercam to acquire its stake in KBC-Petercam Derivatives NV (KBCPD). KBC Bank is now the sole owner of KBCPD, and the name has been changed accordingly to KBC Derivatives NV.
- KBC Bank spent 107 million US dollars to purchase certain assets from D.E. Shaw & Co. L.P., a leading player worldwide in the trade in convertible bonds and equity derivatives. KBC has set up a new vehicle, namely KBC Financial Products, to handle these activities.

Group activities

- KBC raised its participation in Crédit Commercial de France (CCF), so that it now holds 18.05% of the number of shares and 15.54% of the voting rights in that company.
- At the end of 1999, KBC Bank sold half of its 7.27% holding in Kredietbank SA Luxembourgeoise to Almanij.
- KBC Bank reinforced its risk equity via five issues of preference shares for a total of 1.5 billion euros, two of the tranches being placed in the European retail markets (chiefly in the Netherlands and Spain) and three with European and American institutional investors.

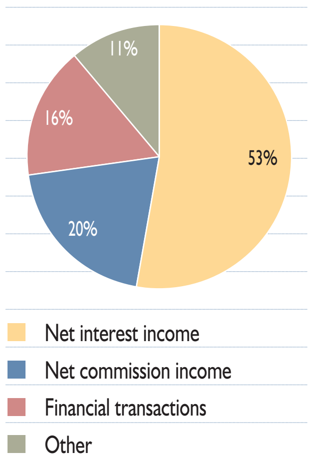
Key figures, results and profitability

Key figures, results and profitability (1) (in millions of EUR)	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	Growth
Banking				
Gross income	2 951.7	3 435.3	3 867.9	12.6%
General administrative expenses	-1 875.4	-2 060.2	-2 524.4	22.5%
Write-downs and provisions	-407.3	-449.0	-555.4	23.7%
Insurance				
Gross margin	483.4	554.2	657.9	18.7%
General administrative expenses	-295.3	-317.6	-344.2	8.4%
Non-recurring results	73.2	167.6	16.0	-90.5%
Holding-company activities	-	-7.9	-11.2	40.7%
Group				
Depreciation of goodwill on consolidation	-13.1	-11.6	-10.9	-6.1%
Income taxes	-256.9	-382.0	-228.7	-40.1%
Extraordinary results	69.2	-116.5	194.9	-
Consolidated profit, Group interests	707.1	797.8	969.7	21.6%
Contribution, KBC Bank	71.6%	72.6%	73.7%	-
Contribution, KBC Insurance	28.4%	28.4%	28.0%	-
Company results, KBC Bank and Insurance Holding Company	0.0%	-1.0%	-1.7%	-
Return on equity (2)	16.2%	16.1%	20.5%	-
Earnings per share, in EUR	2.40	2.69	3.26	21.2%

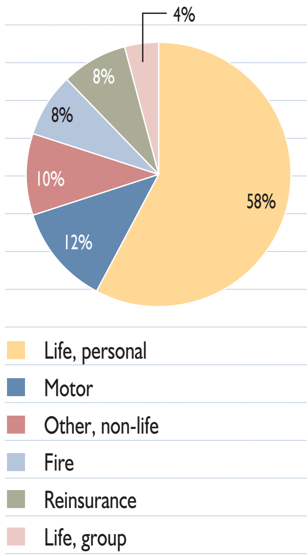
(1) Figures through 31 Dec. 1997 relate to *pro forma* aggregated figures not audited by the statutory auditors.
(2) The significant increase in return on equity in 1999 is due in part to the deduction of goodwill from own funds.

Key figures per area of activity	Profit contribution	ROE
Retail activities, EU	47.5%	17.8%
Central Europe	2.5%	11.4%
Corporate services	26.8%	9.6%
Private banking and asset management	12.3%	49.3%
Market activities	8.5%	6.6%
Group activities	2.4%	-
KBC Bank & Insurance	100.0%	20.5%

Gross income, KBC Bank

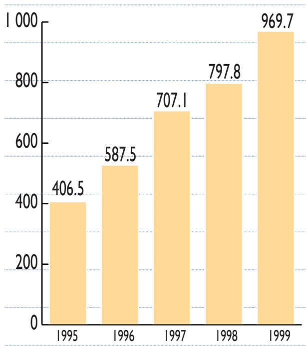


Gross earned premiums, KBC Insurance



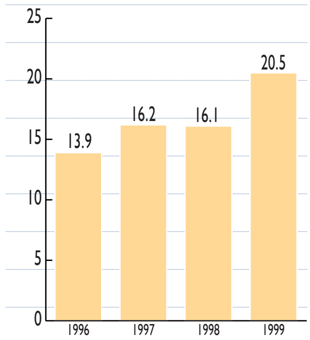
Profit, group interests

(in millions of EUR)



Return on equity

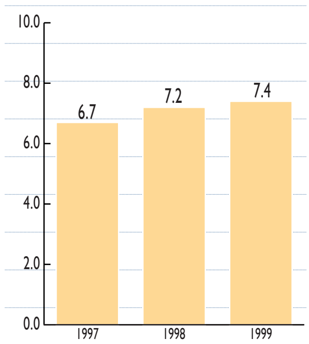
(in %)



Key figures, balance sheet and solvency

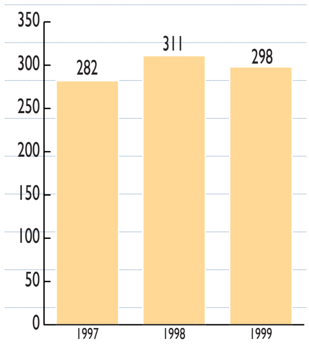
Tier-I ratio, KBC Bank

(in %)



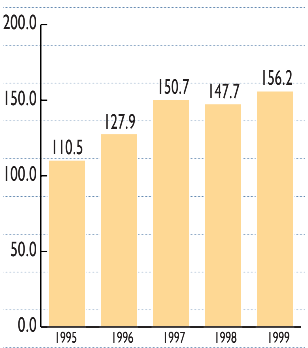
Solvency ratio, KBC Insurance

(in %)



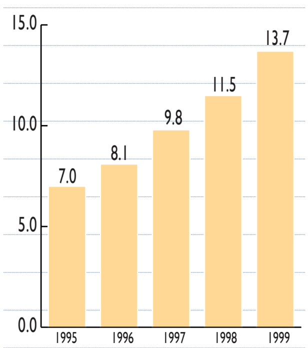
Total assets

(in billions of EUR)



Capital resources

(in billions of EUR)



Key figures, balance sheet and solvency (1) (in millions of EUR)	31 Dec. 1995	31 Dec. 1996	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	Growth
Banking						
Loans and advances to customers	35 213	41 743	47 427	53 412	64 634	21.0%
Securities	30 486	36 264	45 871	48 471	52 087	7.5%
Amounts owed to customers and debts represented by securities	59 279	69 504	78 520	84 962	93 119	9.6%
Insurance						
Investments (2)	4 183	5 123	6 177	7 669	9 384	22.4%
Net technical provisions (3)	3 707	4 514	5 426	6 580	8 019	21.9%
Group						
Total assets	110 496	127 938	150 674	147 725	156 218	5.7%
Capital and reserves (4)	3 592	3 991	4 716	5 223	4 216	-19.3%
Risk equity (5)	6 951	8 089	9 779	11 487	13 737	19.6%
Unrealized gains (6)	1 745	2 590	3 081	5 217	2 874	-44.9%
Solvency						
CAD ratio, KBC Bank	12.2%	12.3%	11.6%	11.5%	12.8%	-
Tier-I ratio, KBC Bank	8.0%	7.1%	6.7%	7.2%	7.4%	-
Solvency ratio, KBC Insurance (7)	-	-	282%	311%	298%	-

(1) Figures through 31 Dec. 1997 relate to *pro forma* aggregated figures not audited by the statutory auditors.
(2) Including 'Investments for the benefit of life assurance policyholders who bear the investment risk'.
(3) Technical provisions minus 'Technical provisions, reinsurers' share'; including unit-linked life assurance.
(4) The decline in this item in 1999 is due to the deduction of goodwill on acquisitions made in that year.
(5) Capital and reserves, third-party interests, Fund for General Banking Risks and subordinated liabilities.
(6) On fixed-income securities and shares, including those entered under 'participating interests in non-consolidated companies' and 'participating interests in companies consolidated according to the equity method'.
(7) Excluding unrealized gains.

Ratings Situation as at 31 March 2000	FITCH-IBCA	Moody's	Standard & Poor's	Thomson BankWatch
KBC Holding Company				
Short-term rating	F1	-	A-1	-
Long-term rating	A+	-	A	-
KBC Bank				
Short-term rating	F1+	P1	A-1	TBW-1
Long-term rating	AA-	Aa3	A+	AA
KBC Insurance	AA	-	A+	-

Net asset value (in millions of EUR)	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999
Capital and reserves	4 716	5 223	4 216
Fund for General Banking Risks	1 413	1 604	1 825
Unrealized gains on shares (1)			
Banking	703	1 157	920
Insurance	1 103	1 619	1 581
Negative goodwill on consolidation (1)	0	0	1 520
Net asset value KBC	7 934	9 602	10 062
Net asset value per KBC share	26.9	32.3	33.8

(1) Unrealized gains = market value - deducted goodwill - carrying value: the goodwill that is deducted is shown separately and not included under unrealized gains.

7.45 a.m. - KBC Head Office, Brussels

The major thrust of strategy

The major thrust of strategy

Achievements in 1999

Strategically, 1999 was an important year for KBC, with initiatives being taken chiefly on four fronts:

- In Belgium, the merger was effectively implemented among KBC's predecessors.
- In Central Europe, a second home market was opened up for banking activities, and insurance activities were developed further.
- Investment was made in certain niche markets, such as derivatives and the financing of the diamond trade.
- As regards other countries of the European Union (EU), KBC raised its existing participation in IIB and its subsidiaries to 100% (Ireland) and acquired an 18.05% stake in CCF (France).

These four focal points will remain key to KBC's strategy in the years ahead.

Becoming a multi-channel bancassurer on the home market

In Belgium, KBC will continue to develop its concept of bancassurance. The fact that its predominantly Flemish home base is one of the best-performing economic regions within the EU is one of the reasons why KBC is aiming to raise its profitability on its home market. During the years ahead, the emphasis will be on continuing to implement the merger. In the immediate future, the focus will be placed on customer-mindedness, on actively retaining customers and on deepening customer relationships. Through the further implementation of the merger, but also via other avenues, major improvements in efficiency will be targeted, as well. Lastly, the year 2000 will see the expansion of the range of Internet services offered.

Central Europe, a second home market

In Central Europe, KBC will continue to work on making the region a second home market. The core tasks will be to improve efficiency and to introduce both a universal bank model and the bancassurance concept. To achieve this objective, selective acquisitions may be made in the countries where KBC has already established a presence. KBC may also make additional investment in one or two other countries in the region whose economy has become sufficiently stable to allow integration into the EU within the foreseeable future.

A major international player in certain niche activities

KBC is looking to be a player at European or world level in certain niche activities. In banking, it plans to focus on developing activities in the area of asset management, equities and equity-derivatives, project and corporate finance. On the insurance side, it is, among other things, considering stepping up its corporate insurance and reinsurance activities.

Expansion in other countries of the EU

In other countries of the EU, the aim is to establish a presence and develop activities that are commensurate with the size of the KBC Group and properly in line with its main objectives as regards activity and profitability. Consequently, KBC will be looking to step up its presence in the euro zone by way of acquisitions, by developing niche activities on the existing base and by entering into alliances that can also serve to underpin activities or to reduce costs.

Financing the strategy

The means necessary to achieve this strategic programme can be drawn from various sources. Almanij, KBC's reference shareholder, is prepared to allow its interest in KBC to fall from 68% to 51%, creating ample scope for capital increases or for an exchange of shares, quite apart from any capital increases that Almanij might also underwrite. In addition, there is ample profit retention, given the payout ratio of approximately 40%, while realized gains are, for the most part, systematically allocated to the Fund for General Banking Risks, which constitutes Tier-1 capital. Lastly, KBC plans to focus on using capital more for activities that offer a higher return on equity or have favourable growth prospects, rather than for sectors with an unsatisfactory risk/return ratio.

Financial objectives

Key to the strategy for the coming years will be the creation of shareholder value. In this respect, KBC is targeting a return on equity of at least 15%, together with annual growth in earnings per share of at least 10%. In the banking business, the aim is also to reduce the cost/income ratio to below 60% by the year 2003.

The creation of shareholder value will also be the basic criterion for evaluating any potential acquisitions. These may not - or at most only temporarily and to a very limited degree - lead to any dilution of the earnings per share. Additionally, and within a reasonable time, they will have to result in a return on investment that is higher than the relevant capital cost.

Key features of the activities and results

Balance sheet

Profit and loss account

8.00 a.m. - Airport, Zaventem

Activities and results at Group level

Activities and results at Group level

Key features of the activities and results

- Group profit was up 21.6% to 969.7 million euros, despite a sizeable, 238.8 million euro allocation made by the banking business to the Fund for General Banking Risks;
- Earnings per share (EPS) went up 21.2% to 3.262 euros; disregarding changes in the scope of consolidation, the EPS figure went up 12%;
- The net dividend rose 12.5% to 0.9225 euros;
- Return on equity climbed to 20.5%;
- Net asset value per share increased to 33.8 euros;
- A conservative policy was pursued for both loan-loss and technical provisions;
- Sound solvency ratios were maintained, despite major acquisitions in the banking business;
- The outlook for 2000 is promising, thanks to the continuing recovery of market activities and the prospect of a full contribution being made by the acquisitions, which only made a partial contribution to the 1999 results.

Key figures, KBC Group

(in millions of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Consolidated profit, Group interests	707.1	797.8	969.7	21.6%
Contribution, banking	506.1	579.0	714.7	23.4%
Contribution, insurance	201.0	226.7	271.3	19.7%
Contribution, holding-company activities	0.0	-7.9	-16.3	105.3%
Earnings per share (in EUR)	2.40	2.69	3.26	21.2%
Net dividend per ordinary share (in EUR)	0.7313	0.8200	0.9225	12.5%
Net asset value per share (in EUR)	26.9	32.3	33.8	4.6
Total assets	150 673	147 725	156 218	5.7%
Tier-1 capital, banking	4 876	5 932	6 927	16.8%
Total risk equity, Group (1)	9 779	11 487	13 737	19.6%
Return on equity, Group	16.2%	16.1%	20.5%	-
Tier-1 ratio, KBC Bank	6.7%	7.2%	7.4%	-
Solvency ratio, KBC Insurance (excluding unrealized gains)	282%	311%	298%	-

(1) Capital and reserves, Fund for General Banking Risks, preference shares, third-party interests and subordinated liabilities.

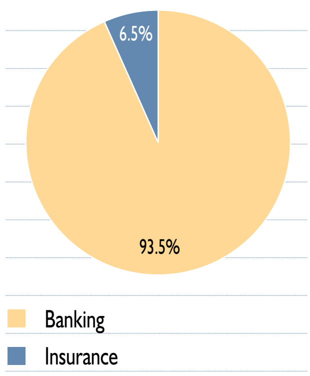
In the **banking business**, the main factors accounting for the increase in earnings in 1999 were the contributions made by the acquisitions and the growth in traditional activities. The considerable gains realized on financial fixed assets had no impact on the results, since they were allocated in full to the Fund for General Banking Risks. The growth in traditional activities was reflected by various developments, including a further increase in domestic market shares, the further expansion of lending abroad and the strong inflow of fee income from investment funds, despite the less favourable trend prevailing on the Brussels bourse. On the other hand, the results were also adversely affected by the sustained pressure on the interest margin, the disappointing performance put in by the dealing rooms in the first half of the year and the sharp increase in the cost/income ratio. The main solvency yardstick, the Tier-1 ratio, remained well above the company's own target of 7%, despite the substantial investments made during the course of the financial year.

In the **insurance business,** recurring profit on ordinary activities before tax went up by 32% to 312 million euros. This fine performance can be put down to the continuing good technical margin in the non-life business, the commercial success of unit-linked life assurance and the more-than-respectable level of financial income. The 258 million euros in non-recurring gains realized on shares allowed sizeable extraordinary technical provisions to be set aside in both the life and the non-life business. KBC Insurance's exceptionally high explicit solvency ratio fell only slightly from 311% to 298%.

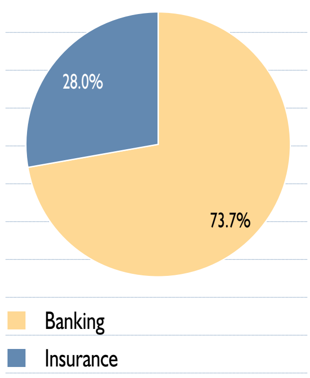
Outlook

In 2000, KBC will focus on developing its bancassurance business on the Belgian home market, devoting a good deal of effort to Internet banking in particular. Besides the merger operations, whose positive effects will make themselves felt mainly from 2001 and 2002 on, KBC will also continue to implement its strategy, in which Central Europe will continue to play a key role. This second home market will thus, with time, be making a big(ger) contribution to profit. Given the good economic conditions generally prevailing in the euro zone, along with other factors, the KBC Group faces the year 2000 with confidence and, barring any unforeseen circumstances, expects its earnings per share for this year to go up in line with its long-term objective, i.e. an increase of at least 10% per year.

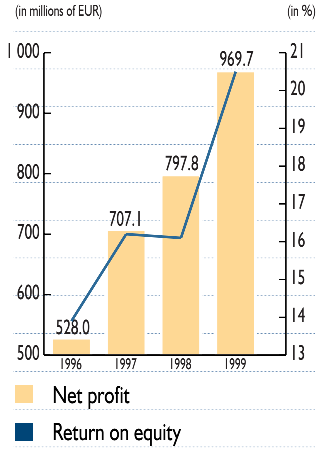
Total assets



Consolidated profit (*)



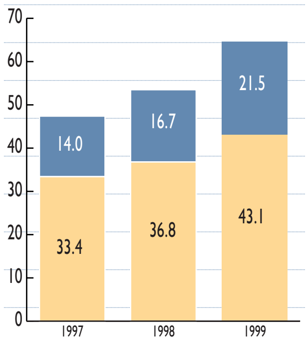
Net profit and return on equity



(*) The contribution of the KBC Bank and Insurance Holding Company NV accounts for -1.7% of consolidated profit.

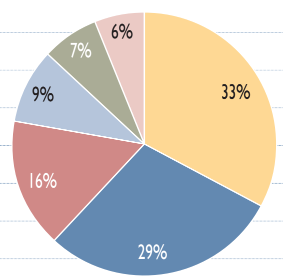
Lending

(in billions of EUR)



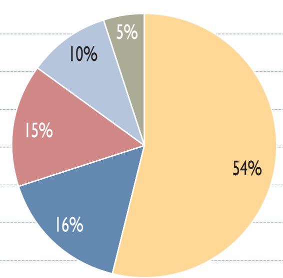
- Belgium
- Abroad

Domestic lending



- Term credit > 1 year
- Mortgage loans
- Term credit ≤ 1 year
- Advances in current account
- Consumer credit
- Other

International lending



- Term credit > 1 year
- Term credit ≤ 1 year
- Other
- Mortgage loans
- Advances in current account

Balance sheet

Overview of consolidated balance sheet

KBC Group (in millions of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
ASSETS				
Banking	**143 802.5**	**139 763.2**	**146 483.1**	**4.8%**
Loans and advances to credit institutions	42 935.0	29 639.7	17 189.1	-42.0%
Loans and advances to customers	47 427.4	53 412.2	64 634.0	21.0%
Securities	45 871.1	48 471.1	52 086.7	7.5%
Financial fixed assets	492.4	468.5	1 188.4	153.7%
Tangible and intangible fixed assets	1 011.7	1 234.6	1 652.2	33.8%
Other assets	6 064.8	6 537.1	9 732.6	48.9%
Insurance	**6 925.3**	**8 526.2**	**10 217.3**	**19.8%**
Intangible fixed assets	63.8	92.6	83.4	-9.9%
Investments	6 146.9	7 457.8	8 188.1	9.8%
Investments for the benefit of life assurance policyholders who bear the investment risk	30.3	211.0	1 195.4	466.4%
Technical provisions, reinsurers' share	221.2	229.6	221.4	-3.6%
Debtors	228.4	274.4	259.0	-5.6%
Other assets	234.6	260.7	269.9	3.5%
Holding-company activities	**0.0**	**45.6**	**347.2**	**661.0%**
Eliminations (1)	**-53.9**	**-609.7**	**-829.1**	**36.0%**
TOTAL ASSETS	**150 673.9**	**147 725.4**	**156 218.4**	**5.7%**
LIABILITIES				
Total risk equity, Group	**9 778.7**	**11 486.5**	**13 737.3**	**19.6%**
Capital and reserves	4 715.9	5 222.5	4 216.2	-19.3%
Third-party interests (including preference shares)	188.1	100.4	1 750.9	1 644.5%
Subordinated liabilities	3 974.0	4 559.6	5 944.7	30.4%
Fund for General Banking Risks	900.7	1 604.1	1 825.5	13.8%
Banking	**134 917.2**	**128 851.6**	**132 395.6**	**2.8%**
Amounts owed to credit institutions	50 091.3	36 067.0	28 871.4	-20.0%
Customer deposits and debts represented by securities	78 519.9	84 962.3	93 119.2	9.6%
Miscellaneous other liabilities	6 306.0	7 822.3	10 405.0	33.0%
Insurance	**6 012.7**	**7 326.3**	**8 957.4**	**22.3%**
Technical provisions	5 617.2	6 598.4	7 045.4	6.8%
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	30.3	210.8	1 195.4	467.2%
Deposits received from reinsurers	109.9	104.0	107.0	2.8%
Miscellaneous other liabilities	255.4	413.1	609.6	47.6%
Holding-company activities	**0.0**	**627.7**	**1 660.5**	**164.5%**
Financial liabilities	0.0	301.2	1 275.7	323.6%
Miscellaneous other liabilities	0.0	326.6	384.8	-
Eliminations (1)	**-34.7**	**-566.8**	**-532.4**	**-6.1%**
TOTAL LIABILITIES	**150 673.9**	**147 725.4**	**156 218.4**	**5.7%**

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

At 156.2 billion euros, the KBC Bank & Insurance Group's **total assets** were up 5.7% on the figure for the close of 1998. If the scope of consolidation had remained the same as in 1998, total assets would have been virtually unchanged, owing to the strict curtailment of growth in the weighted risk volume in the banking business. This policy is leading to further cutbacks in interbank lending and to moderate growth in the securities portfolio.

Bank lending went up by 21% to 64.6 billion euros on the back of growth achieved both at home and abroad. On its home market, KBC Bank was able to continue gradually gaining market share in most segments, as it has done consistently over the past few years. At the close of 1999, it accounted for 21.3% of total domestic lending, compared with 20.2% at the end of 1998. Both in the retail and the corporate segment, the demand for credit was buoyed by the favourable economic conditions and was significantly higher in 1999 than in previous years. Organic growth in international lending was achieved mainly outside the emerging markets, particularly in the US and Western Europe.

As in previous years, investors' preference for equity investments, given the low interest rates and bullish sentiment on stock markets worldwide, was the key factor influencing domestic **customer deposits** (+10.4%). Under these conditions, demand and savings deposits are being used more than ever as a place to park funds until better investment opportunities crop up. On account of the low level of interest rates, not many savings certificates that reached maturity were replaced with new ones. Instead, the monies were generally invested in investment funds or savings deposits.

Investments in the insurance business were up 22.4% to 9.4 billion euros, thanks to the commercial success of unit-linked life assurance products. Consequently, the percentage of total investments accounted for by unit-linked life assurance investments rose from 2.8% at the close of 1998 to 12.7% at the end of 1999. An in-depth risk/return analysis led to the recasting of investment strategy, which in turn led to a 3.94-percentage-point increase to 27.56% in the equity weighting of the carrying value of the investment portfolio for other than class-23 products and to a broader European spread of the holdings.

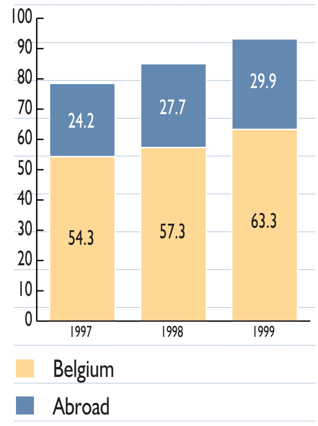
Excluding unit-linked life assurance, for which technical provisions were raised by 985 million euros, 454 million euros or 7% was added to the **net technical provision**. With a final allocation of 131.1 million euros, KBC Insurance brought its interest buffer in the life business to 366.9 million euros.

Despite the major acquisitions made in 1999, the KBC Bank & Insurance Group has maintained its **sound level of solvency** both in its banking and its insurance operations. At the end of 1999, KBC Bank's Tier-1 ratio came to 7.41%, a fraction more than at the close of the previous financial year. On the one hand, the Tier-1 ratio was depressed by the acquisitions, mainly of ČSOB and CCF, but, on the other, it was reinforced by a capital increase to the tune of 650 million euros (which was fully subscribed by the KBC Bank and Insurance Holding Company) and further by the 1.5 billion euro issue of preference shares, the sizeable allocation to the Fund for General Banking Risks and by the retention of profit. The CAD ratio, which, like the Tier-1 ratio, also takes account of supplementary elements of capital such as convertible and subordinated loans, also went up from 11.46% at the end of 1998 to 12.78% at the end of 1999. The strengthening of the solvency ratios naturally also has to do with the bank strategy of curtailing the organic growth of the weighted risk volume (7.6% in 1999).

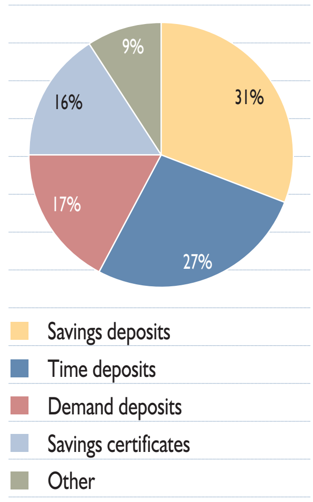
In the insurance business, the solvency surplus, calculated as the difference between explicit solvency capital (excluding unrealized gains) and the required solvency margin, went up by 45.3 million euros to 748.5 million euros at the close of last year. The corresponding solvency ratio edged down from 311% to 298%.

Customer deposits

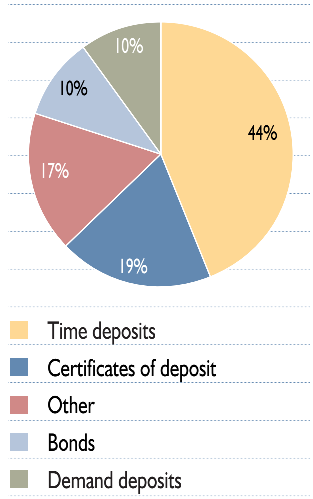
(in billions of EUR)



Deposits in Belgium

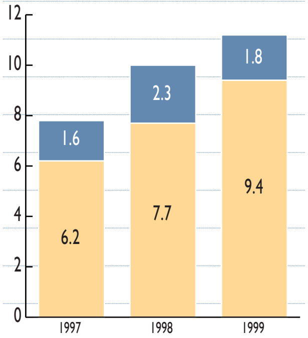


Deposits abroad

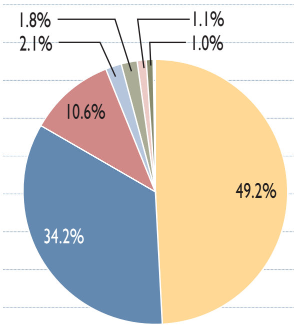


Investments

(in billions of EUR)



Market value of investments, insurance



Profit and loss account (1)

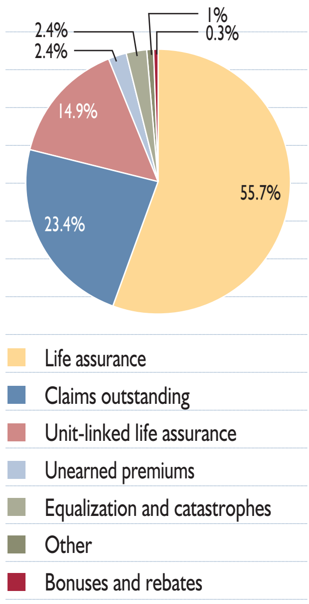
Overview of consolidated results

KBC Group (in millions of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Banking	**2 951.7**	**3 435.3**	**3 867.9**	**12.6%**
Net interest income	1 828.0	1 864.1	2 056.6	10.3%
Dividends	84.6	95.9	100.2	4.6%
Results from participating interests via the equity method	-0.4	12.2	100.5	725.2%
Profit (Loss) on financial transactions	508.1	731.5	636.2	-13.0%
On currency dealing and securities trading	197.4	153.2	170.6	11.4%
Realized gains and losses	310.7	578.3	465.6	-19.5%
Net commission and other operating income	531.3	731.7	974.4	33.2%
Insurance	**483.4**	**554.2**	**657.9**	**18.7%**
Earned premiums, net of reinsurance	1 512.4	1 801.0	2 095.2	16.3%
Net technical charges	-1 425.2	-1 727.6	-2 125.7	23.0%
of which: adjustments to equalization and catastrophe provision	-14.0	-10.9	-3.3	-69.4%
Investment income and charges	391.8	476.5	676.9	42.0%
of which: realized gains and losses	43.4	86.1	135.0	56.7%
of which: value adjustments, unit-linked life assurance	0.6	13.6	118.8	771.7%
Results from participating interests via the equity method	4.4	4.2	11.5	173.0%
Holding-company activities	**0.0**	**-6.1**	**-8.9**	**46.7%**
GROSS OPERATING INCOME	**3 435.1**	**3 983.4**	**4 516.9**	**13.4%**
Banking	**-1 875.4**	**-2 060.2**	**-2 524.4**	**22.5%**
Staff charges	-1 117.1	-1 178.6	-1 369.3	16.2%
Operating charges and depreciation on tangible fixed assets	-758.3	-881.6	-1 155.2	31.0%
Insurance	**-295.3**	**-317.6**	**-344.2**	**8.4%**
Acquisition costs	-240.7	-253.6	-277.4	9.4%
Operating charges	-54.6	-64.0	-66.8	4.4%
Holding-company activities	**0.0**	**-1.8**	**-2.2**	**20.7%**
GENERAL ADMINISTRATIVE EXPENSES	**-2 170.7**	**-2 379.7**	**-2 870.8**	**20.6%**
OPERATING RESULT	**1 264.4**	**1 603.7**	**1 646.0**	**2.6%**
Banking	1 076.3	1 375.1	1 343.5	-2.3%
Insurance	188.1	236.5	313.7	32.6%
Value adjustments, banking	**-407.3**	**-449.0**	**-555.4**	**23.7%**
Write-downs on and provisions for credit risks	-164.0	-178.8	-341.6	91.1%
Value adjustments on securities	-3.3	-39.4	21.5	-
Net allocation to the contingency funds	-221.1	-207.0	-238.8	15.4%
Provisions for other liabilities and charges	-27.0	-20.1	3.6	-
Depreciation of goodwill on consolidation	**-13.1**	**-11.6**	**-10.9**	**-6.1%**

KBC Group (in millions of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Non-recurring result, insurance	**73.2**	**167.6**	**16.0**	**-90.5%**
Non-recurring realized gains and losses	73.2	307.5	257.6	-16.2%
Change in premium reserve	0.0	34.7	0.0	-100.0%
Equalization and catastrophe provision	0.0	-113.4	0.0	-100.0%
Extra life assurance provision	0.0	-61.2	-131.1	114.2%
Provision for financial risks	0.0	0.0	-71.8	-
Provision for Y2K-related claims	0.0	0.0	-29.6	-
Extra provision for internal claims-settlement expenses, Fidea	0.0	0.0	-9.2	-
Extraordinary result, banking and insurance	**69.2**	**-116.5**	**194.9**	**-**
Resulting from the merger	-1.9	-126.3	-11.8	-90.7%
Depreciation of goodwill on consolidation	0.0	-60.4	0.0	-100.0%
Restructuring expenses	-1.9	-138.4	-11.8	-91.5%
Realized gains on financial fixed assets	0.0	72.5	0.0	-100.0%
Other extraordinary results	71.1	9.9	206.7	1 997.1%
Other realized gains on financial fixed assets	86.9	17.5	211.1	1 106.1%
Other extraordinary results	-15.8	-7.6	-4.4	-42.9%
PROFIT (LOSS) BEFORE TAX	**986.4**	**1 194.2**	**1 290.6**	**8.1%**
Banking	726.7	853.9	985.5	15.4%
Insurance	259.8	348.3	316.2	-9.2%
Income taxes	**-256.9**	**-382.0**	**-228.7**	**-40.1%**
Banking	-201.8	-265.2	-182.8	-31.1%
Insurance	-55.1	-116.8	-40.8	-65.1%
CONSOLIDATED PROFIT	**729.6**	**812.3**	**1 061.9**	**30.7%**
Third-party interests	**-22.5**	**-14.5**	**-92.2**	**535.1%**
CONSOLIDATED PROFIT, Group interests	**707.1**	**797.8**	**969.7**	**21.6%**
Contribution, banking	506.1	579.0	714.7	23.4%
Contribution, insurance	201.0	226.7	271.3	19.7%
Contribution, holding-company activities	0.0	-7.9	-16.3	105.3%
Earnings per share (in EUR)	**2.40**	**2.69**	**3.26**	**21.2%**
Return on equity	**16.2%**	**16.1%**	**20.5%**	**-**

(1) Due to a change in the way leasing products and KBC Derivatives' products are accounted for, and because of the introduction of the concept of 'Non-recurring results' in the insurance business, the figures for 1998 have been adjusted to enhance their transparency and comparability. Reconciliation details have also been included in the annual accounts and the accompanying notes.

NET TECHNICAL PROVISIONS, INSURANCE



Result from ordinary activities, banking

Gross operating income up 12.6%

The gross operating income of the banking business went up by 12.6%, thanks not only to the significant contribution made by the acquisitions (mainly by CCF and Kredyt Bank to the result from participating interests via the equity method, and by ČSOB to all profit and loss items), but also to the sustained strong growth in net commission and other operating income, particularly in the second half of the year. KBC Bank's leading position on the fast-growing market in investment funds and its success in selling unit-linked life assurance are an important source of commission income. Commissions derived from the securities business and asset management went up by 105 million euros to 654 million euros. The increase in net commission income was, however, curtailed by commission payable in the amount of 19.6 million euros on the 1.5 billion euro issue of preference shares.

Profit on financial transactions fell 13%, on account of the sharp drop in gains realized on bonds (54.5 million euros, compared with 196.8 million euros for the reference period). Realized gains on shares edged up to 406.7 million euros. Profit on currency dealing and securities trading was up 11.4%, thanks to the better performance turned in by KBC Bank's dealing room in the second half of the year, the brisk growth in KBC Securities and KBC Derivatives' activities, and to the consolidation of ČSOB and KBC Financial Products.

Net interest income and dividends continued to head up (by 10% to 2 157 million euros) in 1999, in line with the trend recorded in previous years. In Belgium, net interest income edged up by a mere 1.1% to 1 574 million euros, mainly because of the sustained pressure on the interest margin. Net interest income abroad, on the other hand, went up by a good 60% to 646 million euros, thanks to the consolidation of ČSOB and the increase of nearly 29% in the branches' net interest income. Organic growth abroad was accounted for largely by the increase in lending in New York, London and Ireland. Net interest income was adversely affected by the 63 million euro funding cost for the acquisitions.

Acquisitions and merger-related expenses push charges up considerably

In the banking business, administrative expenses increased by 22.5% and boosted the cost/income ratio by five percentage points to 65% in 1999. The higher charges are attributable to the broader scope of consolidation, as well as to merger-related expenses. The increase in the cost/income ratio was already visible in the results as at 30 June 1999. Consequently, the operating budgets for 2000 were tightly controlled, and all kinds of non-strategic activities have been scaled down.

In Belgium, staff charges went up by 8.4% as a result of the standardization of employee pay, the increase in the company workforce (up 3.3% in full-time equivalents, chiefly in Asset Management and IT) and the heavier job-classification structure. Abroad, staff charges also headed up, not taking the acquisitions into account, climbing 24%, due to exchange-rate effects and the continuing expansion of the international network, especially in New York and London.

The other operating charges in Belgium, including depreciation on tangible fixed assets, were 147 million euros or 19.8% higher. Most of this had to do with the 35.7 million euros spent on merger-related items (whose impact on the results was offset by writing back provisions), with higher computerization expenses, the fees paid on acquisitions and a less favourable VAT deduction percentage. At KBC Lease, KBC Securities and KBC Securities (France), the brisk expansion of activities boosted charges, too. If the acquisitions are not taken into account, the other operating charges and depreciation charges on tangible fixed assets incurred abroad went up by 13.7 million euros or 10%, much of which was accounted for by the non-recurring cost (5 million euros) of securitizing commercial loans in New York.

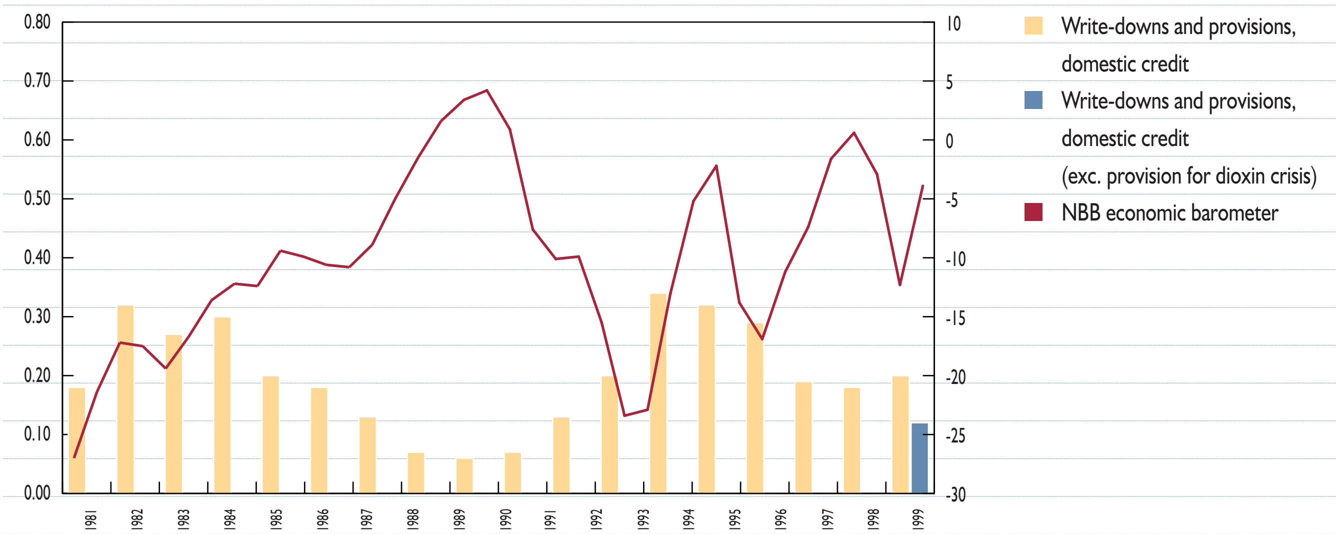
Conservative policy regarding value adjustments

Total value adjustments in the banking business were 23.7% higher at 555.4 million euros. Not only is this a reflection of the conservative policy pursued, it also reflects the sizeable, 238.8 million euro allocation to the Fund for General Banking Risks, which was more than the amount of gains realized on financial fixed assets.

Write-downs on and provisions for credit risks in the banking business in Belgium rose by 63.6 million euros or 98% to 128.5 million euros. This increase was the result of the 25.2 million euro provision set aside for the dioxin crisis (of the 43.9 million euro provision created in the first half of the year, 18.7 million euros were written back in the second, as no serious losses materialized), and also of the fact that there was no repeat of the 48 million euro write-back prompted by the harmonization of the valuation rules for KBC Bank in 1998.

If the scope of consolidation had not been changed, write-downs on and provisions for credit risks in the banking business abroad would have gone up by 53 million euros to 115 million euros. The main write-downs and provisions were taken for Trade Finance, KBC Bank Deutschland and Southeast Asia. The provision for country risks comes to 34.0 million euros (as against 42 million euros in 1998) and consists primarily of a general provision for emerging markets. The expansion of the scope of consolidation accounts for most of the remaining increase in the overall heading for write-downs on and provisions for credit risks.

NET WRITE-DOWNS AND ALLOCATIONS TO PROVISIONS AS A PER CENT OF DOMESTIC CREDIT (FROM 31 DECEMBER 1997 KBC, PREVIOUSLY KB), COMPARED TO NBB ECONOMIC BAROMETER

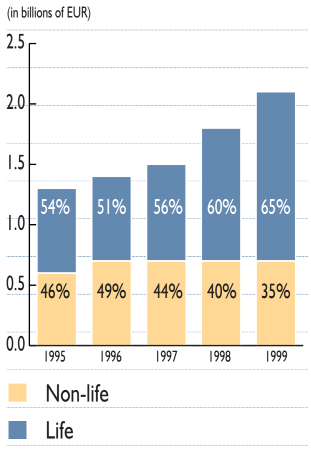


Result from ordinary activities, insurance

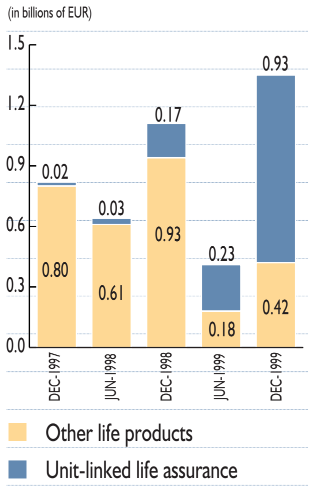
Non-life business

Recurring net earned premiums generated by the non-life business went up by 6.5% to 741.0 million euros, primarily as a result of the reinsurance programme having been reorganized within the framework of the new insurance group, but also due to the 2.2% rise in gross premiums. On the other hand, the non-life business had to cope with the impact of the dioxin crisis in 1999 (although the loss for the sector, in general, and for KBC Insurance, in particular, turned out to be fairly limited in the end) and also with the consequences of the many storms that swept Europe last year, which mainly affected Secura, the KBC Group's reinsurance company. However, thanks to the cession of reinsurance business and the catastrophe provision set aside in the past, the impact on profit before tax remained limited. These loss events and the group's

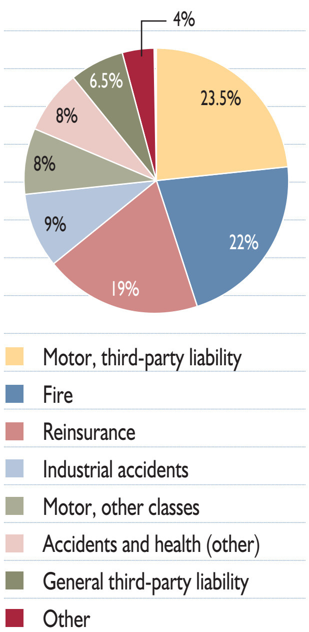
Net earned premiums, insurance



Net earned premiums, life



Net earned premiums, non-life



adherence to a prudent provisioning policy resulted in the net loss ratio edging up by 2.3 percentage points to 72.5%. Despite the exceptional claims and the strong competitive pressure on prices, the non-life business was still able to close 1999 with a very respectable technical result of 127.9 million euros, up 9.4% on the corresponding figure for 1998.

Life business

Net earned premiums generated by the life business grew by 22.5% to 1 354.1 million euros. Sales of unit-linked life assurance in 1999 easily topped the sales of the popular single premium life assurance policies in 1998. After getting off to a rather slow start during the first half of last year, the production of unit-linked life assurance (known as class-23 products) really took off during the second half of 1999, thanks to the launch of a number of new funds, including a 'frequent-click' fund. Ultimately, premium income from these products reached 934.5 million euros. With the guaranteed rate of interest dropping from 4.75% to 3.25% for both conventional and modern life assurance products, the production of the former (class-21 products) declined, as had been expected. However, loan balance insurance proved to be an exception, generating 20% more premium income. The higher premium volume also served to push up the technical provisions considerably, which led to an increase in the net technical charges of 29.6%. The technical result for the life business ended the year at 116.9 million euros, or 16% up on the corresponding figure for 1998.

Recurring non-technical result

The recurring non-technical result climbed from 18.5 million euros in 1998 to 67.2 million euros in 1999, thanks to the higher recurring income from investments.

Non-recurring result

The non-recurring result includes the capital gains which are considered as non-recurring and which are realized on shares and their application for setting aside (what were generally) extra non-recurring provisions. The concepts of 'normalized historic return' and 'normalized historic market value' were used to calculate the non-recurring capital gains. The normalized historic return is the average return over the past ten years on the share portfolio held. The normalized historic market value is calculated as the average market value over the past ten years of the share portfolio held. The product of the normalized historic return and the normalized historic market value is considered to be the recurring income from the share portfolio. If the sum of dividends received and capital gains realized is greater than the recurring income, the surplus is posted as non-recurring income. If the reverse happens, the shortfall is transferred from the provision for financial risks.

In 1999, the non-recurring capital gains realized on shares amounted to 257.6 million euros. These were used to establish a millennium provision (of 29.6 million euros) in the non-life business, to finance an additional allocation of 131.1 million euros to the technical life assurance provisions in order to cover the interest rate risk, and to transfer 71.8 million euros to the provision for financial risks. This provision was set aside in order to cope with the risk of loss or charge stemming from positions in foreign currencies, securities or other financial instruments. The non-recurring result fell by 151.6 million euros in 1999, due to the lower level of capital gains realized on shares and the setting-aside of the new provision for financial risks.

Result from ordinary activities, holding company

A slight loss was recorded on the holding-company activities, due to debt-service charges and the operating charges incurred by the Group on acquisitions and external communication.

Consolidated profit, Group interests

Significant extraordinary gains on financial fixed assets

Compared with the substantially negative extraordinary result in 1998, caused primarily by provisioning 138.4 million euros for merger-related restructuring expenses, the extraordinary result came to a positive 194.9 million euros in 1999. This was due not only to the merger-related provision no longer really being a factor, but also to the considerable gains realized on financial fixed assets in the banking business. 49.4 million euros of these gains came from the sale of KBC Bank Luxembourg, 72.7 million euros from the sale of half the participating interest (of 7.27%) in Kredietbank SA Luxembourgeoise, and 65.8 million euros from Irish Life, on the exchange for Irish Life & Permanent shares. These extraordinary capital gains were transferred entirely to the Fund for General Banking Risks and, therefore, had no impact on the result.

Taxes

The sharp fall in taxes in the banking business was confined to KBC Bank NV and is related to the change in the composition of profit as regards gains realized and provisions set aside. Disregarding the 59.5 million euro provision for taxes posted in 1998 for the disputed assessment of tax on the interest buffer built into the technical provisions of the former ABB, taxes in the insurance business fell by 16.6 million euros, chiefly as a result of the higher amount of franked investment income.

Third-party and Group interests in the consolidated result

Consolidated net profit, less third-party interests, climbed by 21.6% to 969.7 million euros. Third-party interests include primarily the share of third parties in ČSOB (39.6 million euros) and in the Antwerpse Diamantbank (13.1 million euros), as well as the 18.5 million euro dividend on preference shares.

Contribution by the various areas of activity to the consolidated results of the Group

The report on the activities of the KBC Bank & Insurance Group covers the five areas in which the Group operates, viz. retail activities in the European Union, activities on the second home market in Central Europe, corporate services, private banking and asset management and, lastly, market activities. The return on equity for each of these areas is calculated on the basis of the allocated equity needed to achieve a Tier-1 ratio of 7% in banking and on the legal minimum in the insurance business. When comparing the return on equity at Group level, account needs to be taken of leveraging by the holding company and the elimination of intragroup results from the capital and reserves.

Retail activities in the EU include the activities carried out by the retail branch network which are geared towards private individuals, the self-employed and local businesses, as well as the activities pursued by the insurance agents. In 1999, these activities made a contribution of 47.5% to the Group result. In the banking business, the profits generated by retail activities were down, owing to the transfer of roughly 900 customers to the corporate segment, the lower income from payments transactions following the introduction of the euro, the fall in income from the purchase and sale of bonds, and the persistent pressure on the interest margin. On the other hand, placement fees for investment funds rose by 18.4%. The insurance business fared better, posting a handsome increase in profits from its retail activities, thanks to the favourable technical result in the non-life business, the commercial success of unit-linked life assurance products, as well as the higher income from investments in the life business.

The activities pursued on the second home market in **Central Europe**, which was for the most part acquired in 1999, are already making a positive contribution to profit. The disappointing results at K&H Bank were amply offset by the profit contributions made by ČSOB and Kredyt Bank. KBC Bank has become the largest bank in Central Europe and is convinced the region has strong growth potential.

All the specialized banking and insurance services provided to corporate customers in Belgium and abroad have been combined under **corporate services**. This is an extremely varied area of activity, embracing - among other things - the domestic corporate segment, the multinationals segment and most of the activities carried on in the foreign network. Also included are the niche activities of such specialized subsidiaries as the Antwerpse Diamantbank, KBC Lease, International Factors Belgium, ADD, Secura and the corporate finance activities of KBC Securities. The profits generated by this area of activity went up by 16.6%, thanks in the main to the transfer

Key figures per area of activity (1)	Retail activities in the EU	Central Europe	Corporate services	Private banking & asset management	Market activities	Group, not allocated	Total, KBC Bank & Insurance Group
Contribution to profit							
1998, in millions of EUR	486.5	-5.3	222.5	90.9	180.5	-177.3	797.8
1999, in millions of EUR	460.6	23.9	259.5	118.9	82.6	24.1	969.7
Change	-5.3%	-	16.6%	30.8%	-54.2%	-	21.6%
1998, share in result	61.0%	-0.7%	27.9%	11.4%	22.6%	-22.2%	100.0%
1999, share in result	47.5%	2.5%	26.8%	12.3%	8.5%	2.4%	100.0%
Return on allocated equity							
1999	17.8%	11.4%	9.6%	49.3%	6.6%	-	20.5%

(1) For each of these areas, a concise profit and loss account is provided under the relevant sections for the banking business and for the insurance business.

of around 900 customers from the retail segment, the sharp increase in income earned by the branches abroad and IIB's higher profit contribution.

The extremely favourable trend in **private banking and asset management** continued unabated in 1999: the 30.8% increase in profits for this area of activity is attributable chiefly to the further growth of commission income derived from assets under management. Its return on equity is extremely high, due to the fact that, given the virtual absence of risk-weighted assets, the capital adequacy requirements for asset management activities are relatively limited.

The **market activities** include the dealing room activities of KBC Bank in Belgium and abroad, of CBC Banque, the activities of KBC Derivatives and of KBC Financial Products, and the market activities of KBC Securities. The disappointing result booked by the KBC Bank dealing rooms in the first half of 1999 and the sharp increase in costs at KBC Securities account for the decline in the profit from market activities.

The **Group item** includes the income and expenditure that can only arbitrarily be allocated to the various areas of activity. It comprises the costs for the support services (including the staff services, the accounting, risk management and personnel departments, the facility management division, which is, among other things, responsible for accommodation for Head Office services), the costs for transition arrangements, fees (for acquisition dossiers, etc.), the various insurance policies taken out by the bank (for instance, against fraud) as well as most provisions for liabilities and charges (including the provision for restructuring expenses in 1998). In addition, the Group item includes the income from the equity not allocated to specific activities and the capital gains realized on the sale of investment securities and financial fixed assets (including the gains realized on Irish Life & Permanent, KBC Bank Luxembourg and Kredietbank SA Luxembourgeoise) and the share in CCF profits. The allocation by the banking business to the Fund for General Banking Risks, which was made possible thanks to the substantial gains realized on financial fixed assets, was charged entirely to the Group item.

8.35 a.m. - KBC Havenlaan, Brussels

Retail activities in the EU

Retail activities in the EU

Description of activities and contribution to the result

This area of activity comprises all activities carried on by the retail banking network that cater for private individuals, the self-employed and local businesses, as well as the activities of the insurance agents. Corporate services and services to high-net-worth individuals do not qualify as retail activities, but constitute separate areas of activity.

In 1999, retail activities in the EU accounted for 47.5% of the consolidated net profit of the KBC Group, as against 61.0% the previous year. The return on equity for these activities came to 17.8%.

Key figures for this area of activity

(in millions of EUR)	1998	1999	Growth
Banking			
Gross income	1 826.6	1 715.1	-6.1%
Operating charges	-1 289.8	-1 311.6	1.7%
Cost/income ratio	70.6%	76.5%	-
Write-downs and provisions	-96.1	-40.6	-57.7%
Other results	-7.4	-12.1	63.6%
Taxes	-143.7	-125.1	-12.9%
Net contribution to profit	289.7	225.7	-22.1%
Share in Group profit	36.3%	23.3%	-
Insurance			
Earned premiums, net of reinsurance	1 384.8	1 804.2	30.3%
Net technical charges	-1 247.0	-1 765.4	41.6%
Net income from investments	359.8	549.2	52.6%
General administrative expenses	-274.6	-294.2	7.1%
Non-recurring and extraordinary results	114.7	4.3	-96.3%
Other results	-26.9	-25.4	-
Taxes	-114.0	-37.7	-66.9%
Net contribution to profit	196.8	235.0	19.4%
Share in Group profit	24.7%	24.2%	-

This table is based on a lay-out used for internal reporting purposes which differs from the annual accounts as regards the breakdown of the profit and loss components.

In the banking business, the sharp drop in earnings in the retail segment is accounted for by the more than 6% decline in operating income. This negative trend for income is the resultant of a 37 million euro increase in placement fees for investment funds and the transfer of some 900 customers to the corporate segment (impact of 17 million euros), the lower income derived from the payments business as a result of the introduction of the euro (impact, an estimated 23 million euros), the lower revenue from stock market transactions (mainly purchases and sales of bonds on the secondary market; impact of 23 million euros) and the sustained pressure on the interest margin (by and large, this accounted for the rest). The decline in gross income was reflected in a sharp rise in cost pressure. The high cost/income ratio has to do with the extensive branch network (accommodation expenses and staff charges, among other things). On the other hand, it should be noted that the retail segment accounts for a far lower capital charge than the corporate segment.

In contrast, the insurance business chalked up solid earnings growth in the retail segment, thanks to the favourable technical results achieved in the non-life business, the booming sales of unit-linked life assurance and the fine investment income generated by the life assurance business.

Becoming a leading, multi-channel bancassurance group

On the domestic market, a start was made on integrating the various activities, distribution channels and IT systems.

Organization of the merger process

Full integration of the various activities of what were previously ABB, CERA Bank, the Kredietbank and FiDOm remains one of the most important tasks for the entire Group in the years ahead. An all-out effort is being made to ensure that this will not impinge on the daily provision of service to customers. To co-ordinate the various integration activities, a Merger Office was set up immediately after the merger. This office is responsible for planning, supervising progress and for communication regarding the merger process. Actual integration, however, is the responsibility of line management. For each area of activity, the general manager concerned has appointed a programme manager who, on the responsibility of line management, co-ordinates all aspects of the merger at management level that fall within his area of competence.

Main achievements in 1999

KBC Bank

1999 saw a start being made on integrating the bank branches. The aim is to reduce the overall number from some 1 500 to 900, and at the same time to increase branch size. This process has been coupled with a programme of renovation and new building - the 'Branch Refurbishment Programme' - which got under way at the beginning of 1999. By 31 December 1999, 140 branches were ready to be moved into and thirty-one branches had been effectively merged. A four-day week, supplemented by a Saturday morning's work every two weeks, is now in force for the staff of these branches. In 2000, KBC Bank plans to merge a further 280 branches of the former Kredietbank and CERA Bank into 147 branches.

The integration of IT systems is naturally also of vital importance to the merger. For domestic banking purposes, the new KBC IT platform has been based on that of the former CERA Bank, meaning that customers of the former Kredietbank will be transferred to the new platform, along with all their domestic banking products. This migration is taking place without inconveniencing the customer, who is able to keep his old account numbers, payment cards, standing orders, etc. The migration process got under way at the beginning of October and, by the end of 1999, approximately 15 000 customers had been transferred automatically to the new KBC platform.

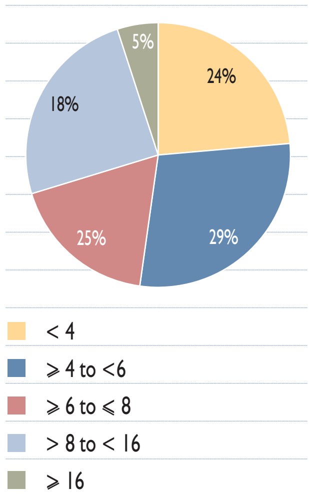
Merged branches can count on intensive Head Office support. Besides the team of merger officers and administrative staff that provide local support, there is also a specific training programme made available to branch staff. The physical integration of Head Office services took place during the first half of the year and involved the transfer of 7 830 members of staff.

KBC Insurance

The Head Office services of KBC Insurance were also integrated during the first half of 1999, and the various products standardized and amalgamated into a KBC product range.

The sale of insurance products via the various distribution channels was streamlined, thanks to the introduction of a co-operation and commission-based model at the beginning of 1999. If a client wants to file a claim, he or she can do so by calling either the KBC-Telecenter or an insurance agent, even if the policy concerned was concluded at a bank branch.

Breakdown of branches by number of staff (in full-time equivalents) after full integration



Agents have long had access to an automated system (ViK) for the sale and management of insurance policies. A special version of this application was rolled out and installed in all KBC Bank branches during the first half of 1999. The IT platform of the insurer is based on former ABB systems. The policies and files of what were Fidelitas, Delphi and Omniver were converted in stages and transferred to the target platform. During the first weekend of October, all the motor, fire and 'family' insurance portfolios of the former Omniver were transferred, an operation involving 250 000 persons, 240 000 policies, 100 000 claims files and 3 500 000 accounting entries. The migration of the remaining insurance policies of the former Omniver is planned for 2000, and the conversion of the former Fidelitas and Delphi for 2001.

Milestones in the merger and process of integration on the domestic market

January 1999	Work began on standardizing branch interiors and exteriors (signboards, illuminated advertising panels, etc.).
February 1999	Information on the commission arrangements between insurance agents and bank branches was circulated. A number of bank branches were linked to the ViK system, the new insurance platform for the branches.
Spring 1999	Rates, charges and product names were standardized.
June 1999	The transfer of KBC Insurance Head Office services was completed. All bank branches were linked to the ViK system. With effect from 13 June, all KBC Bank ATMs became accessible to all customers of the bank; access had previously been platform-linked.
September 1999	The transfer of KBC Bank Head Office services was completed. The first merged branches began operating.
2-3 October 1999	The non-life insurance policies of the former Omniver were transferred to the KBC Insurance IT platform.
7 October 1999	The first bank customers were automatically transferred to the KBC IT platform and their transactions processed without a problem. The pace of migration was raised to 500 and sometimes 1000 customers a night.
Spring 2000	The big wave of branch mergers is scheduled to begin: for 2000, 133 branch mergers are planned (the physical integration of 133 former Kredietbank and 133 former CERA Bank branches and the commencement of the transfer of customers to the KBC IT platform); branches are to be integrated in similar numbers in 2001 and 2002.
Autumn 2000	The first fourteen transformed branches - former Kredietbank branches not being merged with another branch - will migrate to the KBC platform. The transfer of customers to the new platform will get under way in these branches.
End of 2001	All insurance policies of the former Fidelitas, Delphi and Omniver will be transferred to the KBC Insurance platform. Integration of the insurer will have been completed.
End of 2003	All bank customers will have been transferred to the KBC Bank platform. Branch integration will have been completed.

Strategy and action for the year 2000

Developments in the market context

Customer-oriented banking and insurance services are having to be provided to increasingly demanding consumers. Customers and prospects alike are better educated and better informed, lead much busier lives, are more convenience-minded and more price-conscious. That price-consciousness is encouraged by the ever-mounting competition arising from:

- the stagnation of the population, which is limiting the natural inflow of new customers; consequently customer acquisition often means 'bribing' clients away from competitors;
- the widening of the array of financial-service providers - including non-banks and non-insurers -, especially now that the euro has done away with the protection national currencies used to afford the home market, just at a time when information technology - and in particular the Internet - has made it far easier to exploit a new market.

Customer-friendliness: a priority and a challenge

In the retail segment (private individuals and local businesses), the customer-centric commercial approach is concretized by the proximity and the personal contact offered by a dense network of bank branches and insurance agents working in co-operation with one another during extended opening hours. Despite the emergence of other - chiefly electronic - distribution channels, many customers still set great store by a personal relationship, one based on trust, with their local financial-services provider.

The intention is to have bank branches and insurance agencies develop into genuine commercial centres and function less as administrative entities. To the greatest degree possible, bank branches will be able to handle ordinary domestic payment, lending, saving and investment transactions, and the sale of standard insurance on their own. Where necessary, branches in the same vicinity will work in co-operation with each other. The insurance agent will work independently, having the socio-legal status of a self-employed person. Because both the agent and the bank branches sell standard insurance products, retail clients have a choice of where to buy these products. In the active co-operation between branch and agent, the agent also focuses on the sale of non-standard insurance, more particularly to local businesses.

Active customer-retention and the deepening of the bank-customer relationship

Commercial policy in the retail segment will be conducted in 2000 with a view to actively retaining customers, the aim being to prolong and intensify the customer relationship by, among other things, focusing on the sale of products that serve to cement the bank-customer relationship, and encouraging cross-selling. Furthermore, prospecting will be concentrated on two target groups with which a durable and profitable customer relationship can be built up, i.e. young persons and promising starters and entrepreneurs.

KBC will also be looking to exploit recent market developments that are of strategic importance, such as:

- the growing importance of pension saving (capital accumulation) by private persons;
- the emergence of new insurance requirements, including home health care insurance;
- the market in cards, given that the use of cards for payment will increase;
- the growth of the market in investment funds and unit-linked life assurance;
- the fact that the SME market is exhibiting substantial potential, particularly for sales of insurance;
- the rapid development of electronic distribution channels, not least the Internet.

Customers

Number of customers and sub-segmentation

Taking the number of all accounts with the same home address as a single customer (which naturally gives a figure much lower than the real number of accounts), KBC Bank had a customer base of nearly 1.3 million private individuals and 150 000 local businesses as at the end of 1999, an increase of a good 1% on the figure for 1998. For approximately two-thirds of these customers, KBC is the principal banker. On the basis of the same definition, KBC Insurance expanded its customer base by nearly 4% in 1999 to 0.7 million customers.

Although mainly standard products are sold to the large mass of customers in the retail segment, that segment was divided up further to enable the most demanding expectations to be met. A distinction is made among private individuals, top-drawer retail customers, young persons, the self-employed and members of the liberal professionals, small and medium-sized enterprises, agricultural and horticultural businesses, and the social profit and public sector.

Product utilization and cross-selling: still substantial potential

Considerable potential still exists for the KBC Bank & Insurance Group to deepen existing customer relationships further and to engage in cross-selling. In the banking business, 57% of the relationships with private customers are regarded as being stable, meaning that these customers have purchased at least three of the six basic banking products. In the insurance business, 67% of an insurance agent's retail customer relationships are regarded as stable, meaning that at least three of the six basic insurance products have been purchased. Increasing the proportion of stable customer relationships is one of the major focuses of commercial strategy in the domestic retail segment.

There is even greater potential for bancassurance, as only 145 000 customers or 11.3% of bank customers have a stable banking and insurance relationship with the Group. In other words, nearly 90% of KBC Bank's customer base still offers considerable potential for the sale of insurance. Conversely, 55% of the customer base of the insurance agents offers potential for the sale of bank products.

Multi-channel distribution

The KBC Bank & Insurance Group has a dense and divergent network of outlets on the domestic retail market.

Bank branches

As at the end of 1999, KBC Bank had 1 471 branches, situated chiefly in Flanders as well as in Brussels and the Eastern part of Belgium; of these, 780 were former CERA Bank and 659 former Kredietbank branches, the remaining 32 being merged KBC Bank branches.

KBC Bank is present in the French-speaking part of the country via its wholly-owned subsidiary CBC Banque, which boasts 165 branches. 138 of these are retail branches, serving private individuals, the self-employed and local businesses. It also has 20 branches catering mainly for medium-sized and large companies, and a further 7 to serve private banking clientele.

A specific role in KBC's multi-channel distribution strategy is played by the Centea agent network, a total of 1 370 tied banking agents, 956 of whom run their own agencies and 414 of whom sell products and services as a subsidiary activity. Centea concentrates on the domestic market of private individuals, the self-employed, members of the liberal professions and small businesses, aiming to build up a financial relationship with them based on relatively straightforward products and highly personalized service.

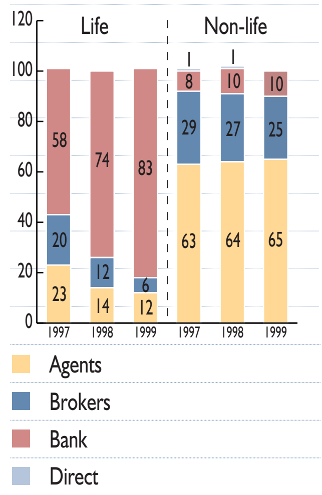
Insurance agents

As at the end of 1999, KBC Insurance had 820 agents spread throughout the country, though located chiefly in Flanders. The insurance agents have the socio-legal status of self-employed individuals and work exclusively for KBC Insurance. Insurance is also sold via the Fidea brokers. Traditionally, the former ABB has sought its clientele (mainly private individuals and local businesses) in rural municipalities and primarily in Flanders.

The co-operation agreement between KBC Insurance and its agents was amended in the course of 1999 to bring it into line with the new distribution model of the KBC Group. Co-operation between the independent agent and the bank branch is based on the two entities teaming up and being linked to one another. The bank branches can sell all standard life assurance and non-life insurance products to private individuals, whereas the agent sells both standard and non-standard products. The bank branch will refer anyone requiring non-standard insurance to the agent, who also handles the sale of products to the self-employed and members of the liberal professionals.

Spread of KBC Insurance's premium income across the various distribution channels

(in %)



Linkage	Insurance agents
Linked to one or more partners	695
Not linked	125

Amendment of the agreement mentioned above was delayed by the law of 4 May 1999 (the Willems Law), which expanded the law of 13 April 1995 concerning commercial agency agreements to include the financial professions and the insurance sector. This made it necessary to alter the agreement again to ensure that the strictly binding provisions of the law concerning commercial agency were complied with and that the original balance was maintained between the rights and obligations of the two parties, i.e. the insurer and the agent.

During September and October 1999, the new co-operation agreement was submitted to the KBC insurance agents in Flanders for signature, and January and February 2000 will see it being submitted for signature to the CBC insurance agents in Wallonia and to the agents in the Eastern part of Belgium.

Electronic distribution channels

With the creation of the KBC Bank & Insurance Group, all the distribution channels aside from the branch and agent networks of the various companies were grouped together in the 'Remote Banking & Insurance Division' (BVA for short). They do not compete with the branch network, but rather supplement it. They include primarily:

- The KBC-Matic ATMs in branch lobbies, where customers can carry out ordinary banking transactions. In June 1999, within the framework of the merger, the networks of the former CERA Bank and Kredietbank were combined, giving all customers access to a network of more than 1 000 proprietary ATMs.
- The KBC-Telecenter call centre, which allows customers to carry out ordinary banking transactions, place stock market orders and request information about the products, services and publications of the KBC Group. The number of incoming calls trebled in 1999 to approximately 2 500 per week. The KBC-Telecenter itself conducts commercial campaigns and is responsible for answering e-mail messages sent via the KBC web site. In 1999, the KBC-Telecenter captured fifth place in a comparative survey of 104 Belgian call centres, and was rated the best call centre in the financial sector.
- The various electronic systems, including KBC-phone, KBC-Online and Isabel, which permit the customer to bank via the telephone and the computer. Despite the fact that these systems had to be converted for the transition to the year 2000, they have grown exponentially. As at the end of 1999, two out of every three transfers that KBC received had been sent via an automated channel.

Internet

During the latter half of 1999, the strategy concerning the Internet as a distribution channel was revised. Because of other priorities (the introduction of the euro, the transition to the year 2000, the merger), KBC had until then limited itself in developing Internet applications, but has now resolutely opted for an active approach focused on growth and added value. A revamped KBC web site had already been opened in August and work had begun to close down the web sites of the pre-merger companies.

The KBC web site primarily contains information about products and services, as well as specific information for the various target groups. Furthermore, customers may use the web site for simulations of loans, investments and insurance policies, etc. During the past year, the number of unique computer addresses logging on to the KBC web site trebled to around 80 000 per month. The number of real visitors is therefore higher, given that several persons often log on via the same e-mail address. More than two million pages are consulted each month on the KBC web site. Of all the stock market orders placed via KBC on the Brussels stock exchange in December 1999, more than 25% were given via the KBC web site, accounting for a volume of 6.94 million euros. This service is currently available only to customers of the former CERA Bank, but will shortly be available to former Kredietbank customers, as well.

The services provided via the Internet will be expanded considerably in 2000.

- The broad segment of private customers will be given access to an on-line Internet platform. KBC aims to have 160 000 private customers using its Internet services by 2002. To achieve this, a number of basic functions are being broadened and expanded to form a low-threshold, basic Internet package of quick, inexpensive banking and insurance products and services.
- A Premium Investor package is being developed for top-drawer customers in the retail segment, and will include a high-quality instrument for on-line portfolio management and a facility for carrying out stock market transactions on the international markets in near real time. KBC aims to have something like 65 000 customers using this package by 2002. The Remote Banking & Insurance Division is also experimenting with the development of a virtual branch, which will be tested by a selection of 200 customers. In December 1999, moreover, the first Belgian financial institution to do so, KBC announced the launch of on-line services via mobile phone, whereby use will be made of the WAP (Wireless Application Protocol) technology. In the future, mobile phone services will match the offering on the Internet. Account transactions via mobile phone will be on the market as soon as comprehensive security is available.
- For local businesses, KBC-Online is being expanded to include a number of functions specially developed for this target group. By 2002, it is looking to have 80 000 local businesses using these services and to this end is studying the possibilities of offering an on-line e-business package that would give local businesses the opportunity to sell their products and services via the Internet.

Lending to private individuals, the self-employed and local businesses

Lending policy

Domestic lending policy is characterized by its considerable focus on customer requirements and by the strict monitoring of the quality of the credit portfolio. This is reflected by the following strategic objectives:

- a market-oriented product offering;
- a suitable acceptance framework and adequate pricing, based on a sound risk/return ratio;
- high-performance and efficient processes for the acceptance, management and follow-up of loans, which will be achieved through far-reaching standardization where possible, and where necessary will allow for customization and flexibility.

Retail lending

In 1999, loans to the domestic retail segment increased by 9.6% to 23.8 billion euros, accounting for 71% of total domestic lending. Lending to local businesses stagnated in respect of the previous year, in consequence of the transfer of a number of large accounts to the corporate segment. In other words, the growth in retail lending is due entirely to the expansion of credit to private individuals. No loans were securitized in 1999.

Credit to private individuals

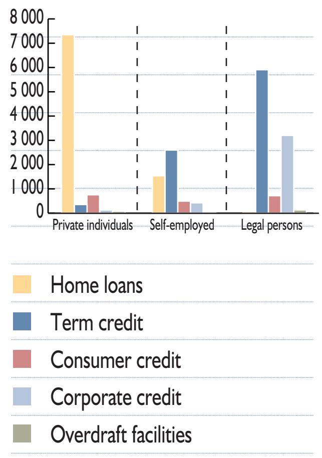
Ever-keener competition squeezed interest margins in the retail segment even further in 1999. In spite of this, the sale of home loans remained attractive, given that the long-term profitability of customers with a home loan is above average. A successful campaign targeting the broad group of private individuals was conducted around the theme of 'housing', and led to KBC Bank's market share going up by 1.3 percentage points to 18.8%. New production of home loans in 1999 totalled nearly 2 500 million euros, an increase of more than 60% on the figure as at the close of 1998; about 30% of this was due to refinancing (as against approximately 25% in 1998). The relatively large proportion of refinancing is not a new phenomenon and is naturally accounted for by the low level of interest rates.

Consumer credit continued to be boosted by the commercial campaigns that got under way in the course of 1997 with a view to reversing the decline in market share. Centea, too, which focuses specifically on this market segment, was able to strengthen its position further. The introduction of a well-defined acceptance system for 120 or so major agents has made it possible for them, within certain limits, to approve credit applications more or less immediately, which naturally increases their commercial clout.

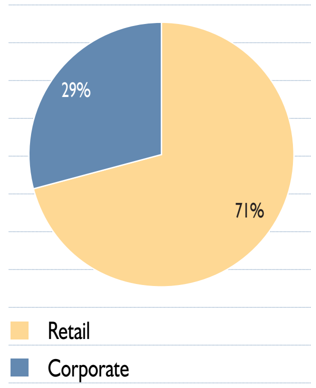
The quality of credit to private individuals is very good: only 1.38% of the portfolio is doubtful. Roughly 37% of these doubtful loans are covered by specific loan-loss provisions, while adequate security (chiefly mortgages) covers the rest.

Breakdown of the retail loan portfolio per customer segment

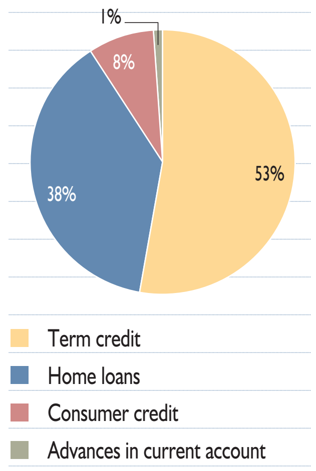
(in millions of EUR)



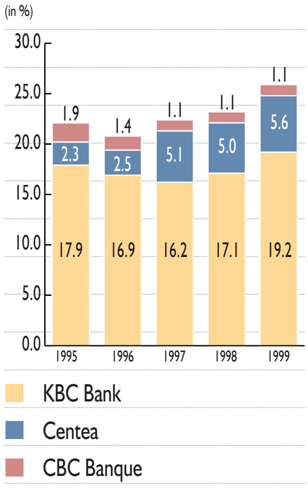
Breakdown of domestic lending



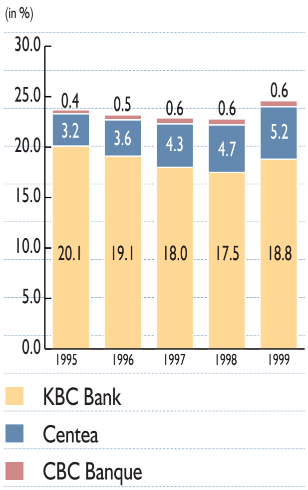
Breakdown of retail lending



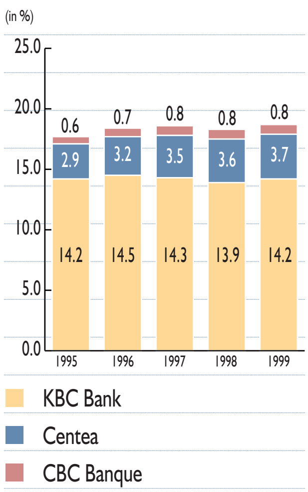
Consumer credit :
KBC group market share (*)



Mortgage loans :
KBC group market share (*)



Retail savings :
KBC group market share (**)



Credit to the self-employed and local businesses

In the market for small and medium-sized enterprises, an 'SME credit' campaign helped KBC consolidate its market share. Market research indicates that, in Flanders and Brussels, KBC Bank has become the biggest and most highly regarded provider of banking services to SMEs. Exact figures on market share are available only for the entirety of loans to businesses, i.e. not only to the self-employed and small businesses, but also to medium-sized and large companies. See the section on 'Corporate services' for these figures.

During the first half of the year, Belgium was hit by the so-called 'dioxin' crisis, dioxin having got into the human food chain through animal feed. Because of its substantial market share in the agricultural and agro-industrial sectors, the KBC Bank & Insurance Group followed the development of the crisis very closely. Thanks to its expertise in the sectors concerned, it was able to play an active part, in consultation with the government, in working out financial solutions and in providing information to its clientele.

The short-term liquidity crunch suffered by various agricultural businesses as a result of the dioxin crisis was alleviated by limited debt rescheduling or by a government-backed bridging loan. Ultimately, the consequences of the crisis were not as bad as expected. 18.7 million of the very ample prudential provision of 43.9 million euros set aside as at 30 June 1999 was written back at the end of the financial year, and the number of doubtful loans actually resulting from the crisis remained extremely limited.

Deposit books, savings certificates and investment funds

For some years now, persistently low interest rates on the market and the favourable stock market climate have meant that private savings on deposit books and savings certificates have had to compete against stock market investment, a trend that persisted in 1999. Investment funds, particularly those offering a capital guarantee, again proved to be enormously successful (see the section on 'Asset management'). However, despite investment funds gaining substantial market share, KBC Bank succeeded in retaining its market share in retail savings (deposit books and savings certificates: see graph) and even managed to increase it slightly. Including investment funds, market share has risen over the last five years from 18.9% as at the end of 1994 to 22.2% as at the end of 1999.

Payment transactions

The introduction of the euro went smoothly. Since 1 January 1999, all payments have been able to be made in euros, but no more than 0.55% of private individuals have so far converted their accounts to the new currency. The main features of domestic payments activity in 1999 were:

- the addition of the Maestro function to KBC cards, which permits customers to pay with their KBC bank cards (a debit card) and to withdraw cash throughout the world;
- the co-operation with CJP (Cultural Youth Passport), whereby young people with the KBC card automatically get CJP membership with all its attendant benefits (discounts from affiliated retailers, on cultural events, etc.);
- the replacement of all cards of the former Kredietbank and CERA Bank with cards bearing the KBC logo.

(*) Market share vis-à-vis **all** Belgian credit institutions; the figure for 1999 is an extrapolation of the market share vis-à-vis the group of large credit institutions. Consumer credit and mortgage loans are granted chiefly, but not exclusively, to private individuals.
(**) Total deposit books and savings certificates: market share vis-à-vis all Belgian credit institutions; the figure for 1999 is an extrapolation of the market share vis-à-vis the group of large credit institutions.

Insurance

Life assurance

The life assurance market was characterized in 1999 by the breakthrough of unit-linked life assurance, the class-23 products. This type of life assurance is extremely suitable for distribution via bank branches, given its significant investment feature. Moreover, the sale of class-23 products only very partially replaces that of other forms of life assurance and consequently chiefly generates additional premium income. The total premium volume on the life assurance market is thus headed up sharply.

The successful unit-linked life assurance products can also be employed particularly efficiently in the building-up of supplementary pensions. Provided the necessary creativity is forthcoming on the part of the government and insurers, it is a logical, feasible option for supplementing state pensions.

Currently, the growth of the commercial life assurance market is accounted for principally by the target group of self-employed persons working in company form. Indeed, there is barely any growth at all in the market for pension schemes for wage-earners because of wage restraint.

Non-life insurance

This market is saturated and for a number of years has consequently been characterized by keen price competition and limited growth of premium income.

In order to achieve growth and profitability targets, the non-life business has concentrated on offering quality products, customized for the various segments. Particular attention is being paid to assisting clients, both when they take out insurance policies and when they file claims.

KBC Insurance's pricing policy is aimed at maintaining a technically sound portfolio. Competitive premiums are the result of efficient business practices, an adequate commission system and intelligent price differentiation.

In **motor insurance**, market trends led to a decline in technical results from mandatory third-party liability insurance. A substantial proportion of the market is already recording negative technical results and finding it increasingly difficult to offset this with investment income. On top of this, the loss burden has mounted since 1998. The market will probably be looking to increase premiums, especially if the extraordinary investment income of past years dries up. Bucking the trend, KBC Insurance managed to maintain its good results, thanks to its pricing policy and sound portfolio management. At the commercial level, the market in comprehensive insurance benefited from the exceptionally brisk sales of new cars in 1999. Thanks to the renewal of the vehicle fleet in Belgium, a trend that will probably continue in 2000, comprehensive motor insurance has good growth prospects. The bonus-malus system in obligatory third-party liability insurance will in all likelihood be abolished in 2000, so that each company will be able to set its own prices.

As regards **fire insurance** and other property insurance, the market performed fairly satisfactorily. In home insurance and insurance for other simple risks, the declining loss burden and the absence of violent storms ensured reasonable technical results. In respect of both growth and profitability, KBC Insurance is among the market leaders. In the Spring of 1999, it launched a new fire insurance policy for homes, the 'KBC Home Policy', which insures homes on an 'all-risks' basis, meaning that everything that is not explicitly excluded is insured. Furthermore, for both his house and its contents, the insured enjoys maximum certainty that his property is not underinsured. The year 2000 will probably see general, natural-disaster cover being introduced on the market, which will offer opportunities for additional premium income growth.

In **industrial accident insurance**, the effects of the general decline in premium rates for the risk involved in commuting between the home and the workplace made themselves felt. Other rates are also under pressure. Keen price competition is a feature particularly of the segment encompassing large companies, institutions and hospitals. After having declined over a number of years, the loss burden is now beginning to rise again, a normal phenomenon in times of an improving economy.

There was little movement on the market for **accident and liability insurance**, and the so-called 'millennium bug' seems to have had no effect at all. Both premium income and the loss burden stabilized.

Legal assistance insurance, lastly, had to cope with an increase in the loss burden, particularly where it is not linked to motor insurance. The market is aware of this and has raised prices, resulting in premium income growth. Such price increases will probably continue in 2000.

At the end of April, the dioxin crisis broke out. KBC Insurance reacted promptly by setting up a dioxin unit and setting aside the necessary provisions for possible claims. In respect of liability insurance, KBC Insurance was not involved with the companies suspected of being the source of the contamination, although claims were filed for legal assistance. Because of the reasonably favourable system of indemnification worked out by the government, KBC Insurance expects little, if any, legal action and consequently anticipates that the financial burden it will have to bear will be very limited.

Market shares

	Product	1997	1998	1999
KBC Insurance NV	**Total**	**7.01%**	**8.24%**	**9.81%**
	Non-life	**7.65%**	**7.56%**	**7.51%**
	Life	**6.33%**	**8.79%**	**11.37%**
	class 21	7.10%	9.64%	5.46%
	class 23	0.00%	5.41%	20.40%
Fidea	**Total**	**1.36%**	**1.08%**	**0.87%**
	Non-life	**1.85%**	**1.63%**	**1.46%**
	Life	**0.84%**	**0.64%**	**0.47%**
	class 21	0.94%	0.80%	0.79%
	class 23	0.00%	0.00%	0.00%
KBC Insurance NV and Fidea	**Total**	**8.37%**	**9.32%**	**10.68%**
	Non-life	**9.50%**	**9.19%**	**8.97%**
	Life	**7.17%**	**9.43%**	**11.84%**
	class 21	8.04%	10.44%	6.25%
	class 23	0.00%	5.41%	20.40%

Developments at the major subsidiaries in the retail segment

Fidea

Fidea concentrates chiefly on serving the private individual and local business market, a segment in which the broker channel is very strong, albeit more so in non-life insurance than in life assurance. Probably prompted by the success of bank branches in the sale of life assurance, brokers are becoming increasingly aware of the growth potential in this market. Fidea, which is looking to position itself as the specialist in personal insurance, naturally exploited this positive trend.

Particular attention was paid to the segment of self-employed persons and small businesses. The combination of personal and commercial insurance created a specific situation and led to a specific insurance approach.

Fidea is entering into a partnership with a select group of brokers, with a view to forging a profitable relationship for both parties over the longer term and to providing a better service to clients. Partners will have automated access to the policy processes at Fidea, a link already established for standard personal insurance in 1999. Solutions for customized insurance are being sought via the Internet.

The support that Fidea provides is moreover differentiated according to the profile of the broker, whereby the approach for a corporate segment broker differs from that for a broker operating chiefly in the personal segment.

Co-operation with Centea, the KBC Group's savings bank, opens up the prospect of an integrated financial offering. This form of co-operation will be fleshed out during the years ahead.

Key figures, Fidea

Non-consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	100.0%	100.0%	100.0%	-
Gross technical provisions	633.6	790.4	830.3	5.0%
Investments	673.1	994.9	1 092.2	9.8%
Profit for the financial year	16.8	199.8	12.8	-93.6%
Capital and reserves (after profit appropriation)	87.7	257.8	263.7	2.3%
Return on equity	20.6%	115.7%	4.9%	-
Solvency ratio	-	581%	624%	-
Number of staff (1)	639	603	363	-

(1) See the section entitled, 'Personnel', for notes to these figures.

CBC Banque

CBC Banque arose out of the merger between Crédit Général - the Kredietbank's subsidiary in French-speaking Belgium - and the branches of CERA Bank in Wallonia. In its operating area, just as KBC Bank in Flanders, CBC Banque is oriented towards three segments, i.e. the retail segment, the corporate segment and the private banking segment. CBC Banque has a network of 138 retail branches, twenty branches focusing chiefly on medium-sized and large companies, and seven private banking branches. With more than 300 000 customers, CBC Banque boasts a market share of about 10% of the number of inhabitants in its operating area. Its market share of virtually 2% for lending and deposits does not accurately reflect its real position, as market share is calculated on a nationwide basis.

At CBC Banque in 1999, a great deal of attention was likewise devoted to the organizational and structural work required by the merger and the transition to the year 2000. Indeed, CBC Banque made an early start on integrating the branch networks of the former Crédit Général and CERA Bank in Wallonia and, by the end of 1999, sixty-five merged branches were already operational under the new structure. The rapid process of integration will be continued in 2000.

Technically, the switch to the euro went off without a hitch. Financially, however, it meant a loss of income for CBC Banque on exchange and payment transactions. Overall, 1999 was a good year, with net profit rising by 12.2% to reach 32.6 million euros.

Key figures, CBC Banque

Non-consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	70.76%	100%	100%	-
Loans and advances to customers	1 807.9	2 390.0	2 670.6	11.7%
Total assets	6 913.6	8 908.6	8 346.0	-6.3%
Profit for the financial year	22.6	29.1	32.6	12.2%
Capital and reserves (after profit appropriation)	174.0	263.2	277.9	5.6%
Return on equity	13.4%	13.3%	12.0%	-
Tier-1 ratio	7.7%	11.4%	10.2%	-
CAD ratio	11.9%	13.2%	11.5%	-
Number of staff	741	1 226	1 335	8.9%

Centea

Centea, formed through the merger of the former HSA and Spaarkrediet, is a niche bank specialized in serving the retail customer segment (private individuals, the self-employed and the liberal professions) via a network of independent agents. Centea sees these agents as providing a major competitive advantage in the provision of personal service, due to their stronger local integration and commercial effectiveness. With a market share of 2% in lending and 3% as regards deposits and savings certificates, Centea has a firm position among the top ten Belgian banks. In its market segment, it concentrates on five areas, i.e. savings, investment, lending, payments and insurance. For certain products within these niches, it has a market share of more than 5%.

Despite the record low level of interest rates, Centea managed to keep its savings certificate portfolio more or less at par and achieve growth of nearly 5% in savings books. The outstanding performance of 1998 in respect of off-balance-sheet products was repeated. Total production rose to 322 million euros (up 50%), due primarily to the success of both KBC funds and Centea's own products. 1999 was also an excellent year for Centea on the lending front, total production reaching 1.3 billion euros, a rounded 50% up on the figure for 1998. The lion's share (about 80%) of this was achieved in the private segment, where there was a sharp increase in both consumer credit and mortgage loans.

In 1999, the foundation was laid for a radically new approach to insurance. An alliance was entered into with Fidea, which will provide the insurance offering. During the year, Centea's product range was gradually replaced by Fidea's. Since November, forty pilot branches have worked with a new computer system that permits policies to be registered and printed immediately at the branch itself. This platform will be installed in all Centea branches in the course of 2000.

Key figures, Centea

Non-consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	90.88%	99.56%	99.56%	-
Loans and advances to customers	2 380.0	2 679.1	3 194.9	19.3%
Total assets	7 614.4	8 631.5	10 559.4	22.8%
Profit for the financial year	38.2	63.4	53.8	-15.2%
Capital and reserves (after profit appropriation)	268.6	296.7	320.5	8.0%
Return on equity	14.7%	22.4%	17.4%	-
Tier-1 ratio	15.8%	15.2%	13.4%	-
CAD ratio	12.8%	10.5%	9.5%	-
Number of staff	553	600	611	1.8%

IIB Homeloans and Finance

On KBC Bank's acquisition of Irish Life & Permanent's (IL&P) minority shareholding in Irish Intercontinental Bank (IIB), it was also agreed that IL&P's 33.3% stake in the Irish Life Finance Group (ILFG) would be taken over by IIB. The name, ILFG, has been changed to IIB Homeloans and Finance Ltd. This company has built up a solid position on the Irish market for mortgage and personal loans and leasing. At the end of 1999, it had a loan portfolio worth 1 945 million euros.

FBD Holdings

FBD Holdings (Ireland) is a services group whose flagship company is FBD Insurance, which is engaged primarily in the provision of non-life insurance to the agricultural sector. By origin, therefore, FBD has a rural orientation, though, since 1998, it has also begun gradually to target other, more urban areas and non-agricultural sectors.

Continuing economic growth made for substantial expansion on the Irish insurance market in 1999. Premiums written by FBD Holdings rose by nearly 15% and FBD's contribution to the consolidated result of KBC Insurance went up from 4.2 million euros in 1998 to 4.9 million euros in 1999. In the medium term, FBD is looking to bring about a substantial reduction in its loss ratio by, among other things, achieving a much more rapid and efficient claims settlement process.

9.20 a.m. - KBC Ekeren, Ekeren

Central Europe

Central Europe

Description of activities and contribution to the result

'Central Europe' as an area of activity refers to all banking and insurance services for private individuals, small and medium-sized enterprises, and companies in the Czech Republic, Poland, Hungary and Slovakia.

In 1999, it accounted for 2.5% of the consolidated net profit of the KBC Group. As this area of activity is a new contributor to the results, created mainly through investment in the course of 1999, comparison with the figures for 1998 would be pointless. It should also be noted that several of the participations acquired were only included in KBC's consolidated profit for 1999 from the second half of the year and in some cases not at all. The above-mentioned share in the consolidated profit for 1999 thus understates the actual earnings capacity of the newly acquired shareholdings.

Key figures for this area of activity

(in millions of EUR)	1998	1999	Growth
Banking			
Gross income	21.1	337.8	-
Operating charges	-26.0	-223.6	-
Cost/income ratio	123.4%	66.2%	-
Write-downs and provisions	0.6	-60.5	-
Other results	-0.3	11.3	-
Taxes	0.8	-38.1	-
Net contribution to profit	-3.8	27.0	-
Share in Group profit	-0.5%	2.8%	-
Insurance			
Earned premiums, net of reinsurance	15.4	18.4	19.9%
Net technical charges	-11.7	-17.1	46.2%
Net income from investments	1.3	2.6	97.5%
General administrative expenses	-6.6	-7.0	7.1%
Non-recurring and extraordinary results	0.0	0.0	-
Other results	0.1	0.1	-
Taxes	0.0	0.0	-
Net contribution to profit	-1.4	-3.0	28.9%
Share in Group profit	-0.2%	-0.3%	-

This table is based on a lay-out used for internal reporting purposes which differs from the annual accounts as regards the breakdown of the profit and loss components.

The path to market leadership in Central Europe

For KBC, gaining a significant position in Central Europe was the most notable strategic development in 1999. In the banking business, KBC has now created a second home market by acquiring an 82.4% shareholding in the Czech/Slovakian Československá Obchodní Banka (ČSOB), raising its participation in the Polish Kredyt Bank from 9.9% to 48.6% and upping its participation in the Hungarian Kereskedelmi és Hitelbank (K&H) from approximately 23% to 32.6%, a percentage that has meanwhile risen to more than 72%, following a capital increase and a public offer at the beginning of 2000. Outside studies indicate that the acquisition of these interests has made KBC the largest bank in Central Europe. Work has gone ahead on the insurance front, too. KBC has taken a 95.4% participation in the Hungarian Argosz and, in the Czech Republic, has acquired in several steps a 75.8% interest in Chmelařská Pojišt'ovna, whose name has since been changed to ČSOB Pojišt'ovna. In Poland, lastly, a 23.3% participation was taken in the non-life insurer Agropolisa, in which Kredyt Bank also has a participation of 33.3%.

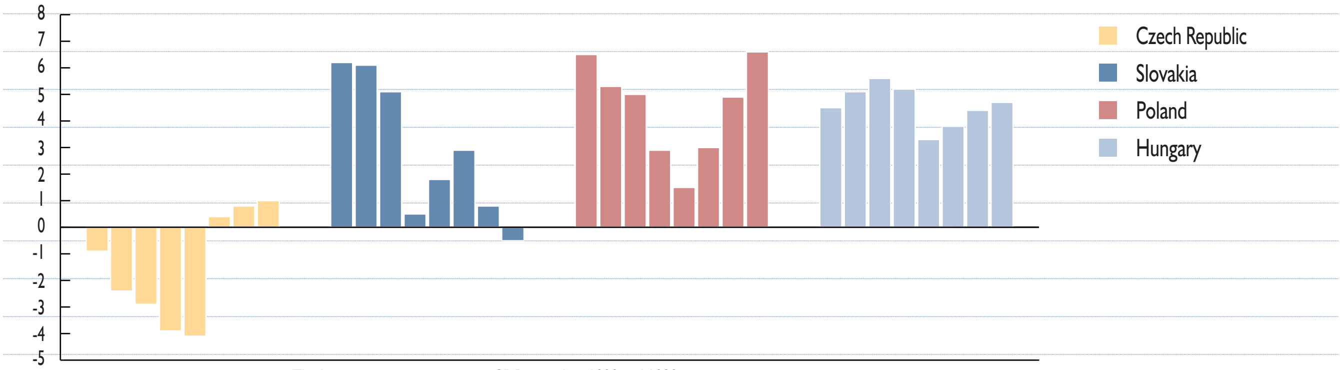
KBC's strategic interest in this region is prompted by four factors. In the first place, partly because of the still relatively modest size of these markets, it is possible for KBC to acquire significant market share in the region. Secondly, KBC judges that this region will experience higher economic growth in the coming decades than Western Europe, especially in the banking and insurance sectors, which currently account for only a small share of the gross domestic product. Thirdly, the countries in which KBC has invested are setting the pace in the region as regards the transition from a planned to a market economy. This is indicated by, among other things, the latest transition index put out by the European Bank for Reconstruction and Development, in which Hungary, Poland and the Czech Republic occupy the first three places and Slovakia the fifth. Normally, then, these will be the first countries in the region to accede to the European Union. Not only will this put these countries into the same economic zone as that in which KBC conducts most of its business, but it will also provide an additional impetus to their economic dynamism, as has been the case with the economic development of such countries as Ireland, Greece and Portugal in the past decade. Fourthly, KBC has invested in this region, because it can transfer certain of its 'core competencies' there. As regards the banking business, KBC is looking to transform the banks that have been acquired into universal banks with substantial retail activities. The bancassurance concept is being introduced by channelling sales of life assurance primarily through the banks, and sales of non-life insurance mainly through agents and/or brokers, following the acquisition of existing insurers.

Favourable initial results under difficult economic conditions

It is stating the obvious to say that the results of banks and, to a less extent, insurers are to a large extent determined by the economic conditions in which they operate. In Central Europe, these were less favourable during the past year. During the first half of 1999, the slowdown in growth that had characterized Germany since the latter half of 1998 and the sharp decline in exports to Russia, particularly in Poland, had a negative impact on the economy. Poland, Hungary and Slovakia experienced a slowdown in growth during the first six months of 1999 and slower economic growth over the entire twelve months than in previous years, but the Czech Republic's experience was worse. The recession that had set in at the beginning of 1998 continued unabated into 1999 and in the first quarter - the fifth quarter of uninterrupted negative growth - it hit bottom, with negative economic growth of 4.1%.

During the second half of the year, however, the gradual recovery of the European and principally the German economy brought improvement. Growth picked up again in Hungary and Poland, and negative growth figures became a thing of the past in the Czech Republic. The latest figures indicate that the economy is starting off the year 2000 with very good prospects. The past recession means that the Czech Republic will begin the upward cycle with relatively good figures in terms of macroeconomic equilibrium, such as a low rate of inflation (2.1% in 1999) and a small current-account deficit (no more than 0.8% in 1999). The other countries in the region, however, are having to cope with inflation around the 10%-mark, and Poland and Slovakia with a relatively high deficit on the current account, as well.

Real GDP growth : Czech Republic, Slovakia, Poland and Hungary (% growth on the corresponding quarter of the previous year)

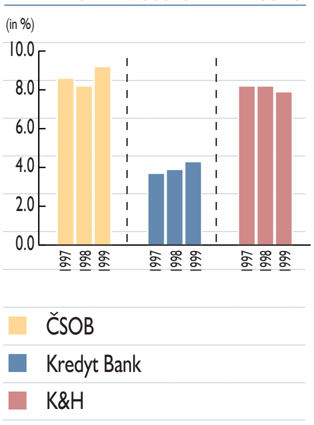


The bars represent year-on-year GDP growth in 1998 and 1999, per quarter.

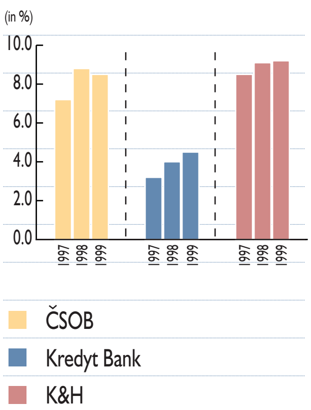
Under these difficult economic conditions and particularly in the Czech Republic, KBC's banking and insurance activities in Central Europe still managed to make a reasonable showing.

At present, there are major business-economic differences among the Central European banks in which KBC holds a participation. There are nevertheless similarities, too. Firstly, in a region that, by definition, has so far been less stable economically than Western Europe, KBC has made a point of acquiring good quality banks as far as risk is concerned. In this respect, each of the three banks in the region has done much better in terms of problem loans than the sector average for the country concerned. KBC has also targeted banks with sufficient commercial clout, which is partially reflected in the trend of each of the three banks' market share during recent years (see graph). Lastly, a programme to improve efficiency was set in train in each of the three banks. For ČSOB and K&H, this was reflected during the past year in, among other things, a decline in staff numbers (see graph page 53).

Market share : customer deposits



Market share : lending



KBC's activities in the Czech Republic and Slovakia

KBC acquires a major banking position via ČSOB

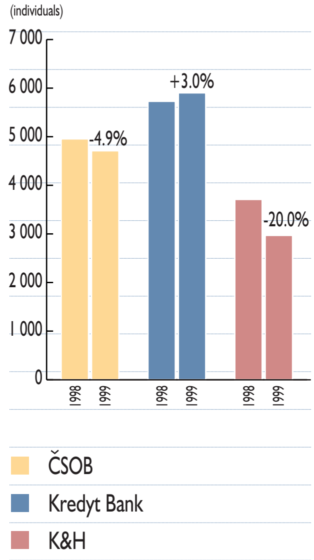
1999 saw KBC acquiring an 82.4% stake in ČSOB, the fourth-largest bank in the Czech Republic on the basis of market share in customer deposits and lending, and the fourth-largest in Slovakia on the basis of customer deposits, though fifth-largest on the basis of the share in lending. Initially, ČSOB was oriented primarily towards foreign trade financing. Consequently, it has until now remained the leading bank in the Czech Republic and Slovakia for the corporate customer segment. ČSOB also gradually penetrated the SME market segment, where today it ranks third, with a growing market share. This bank is particularly strong in foreign payments and foreign currency transactions. Characteristic of ČSOB is the fact that its cautious policy towards both large companies and SMEs has enabled it these past years to avoid the gigantic credit problems that its direct competitors have been confronted with. The substantial portfolio of problem loans that the bank inherited from the communist era is now fully covered, thanks to State guarantees and loan-loss provisions set aside through 1998. ČSOB has easily been able to avoid new problem loans, owing to the conservative policy it pursues.

Historically, ČSOB was not a bank oriented towards private individuals. Over the years, however, its reputation as a safe haven in a sector beset with problems has led it to build up a customer base of 332 000 private individuals. Given the demands that ČSOB makes as regards minimum deposits, it has attracted mainly the better-off among the population. ČSOB has fifty-four branches in the Czech Republic and seventeen in Slovakia, well spread throughout both countries.

Sound results in difficult circumstances

Because of the poor economic situation in the Czech Republic and Slovakia, 1999 was a difficult year for ČSOB. The halving of the market interest rate, necessary for combating the recession, resulted in a steep decline in the interest income that ČSOB earns on its ample own funds. It proved impossible to offset the narrowing of the interest margin by sharp volume growth on the assets side, as the recession reduced the opportunities for granting new loans with a favourable risk/return ratio. This was only partially compensated for by an increase in commission income, so that ČSOB was faced with a severe drop in revenue. On the other hand, however, ČSOB was able to keep its costs well under control (it had a cost/income ratio of 53% as at the end of 1999) and, especially, no longer needed to set aside provisions for old problem loans, as had been the case up to and including 1998. Indeed, interim figures indicate that it did much better than its three major competitors combined; after three quarters and for the second year in succession, they had had to report heavy losses (see graph). The favourable underlying trend for ČSOB was emphasized by the bank once again capturing market share in customer deposits, due chiefly to further penetration in the retail segment.

Personnel numbers



Key figures, ČSOB

Consolidated (in millions of EUR) (IAS)	1997	1998	1999	Growth 1998 → 1999
KBC participation	0%	0%	82.4%	-
Loans and advances to customers	2 941.0	3 327.8	2 688.3	-19.2%
Total assets	6 255.0	7 198.3	7 154.5	-0.6%
Net profit for the financial year	73.4	90.2	78.2	-13.3%
Capital and reserves (after profit appropriation)	646.9	785.5	872.0 (1)	11.0%
Return on equity	12.0%	12.6%	9.4%	-
Tier-1 ratio	12.6%	16.5%	17.4% (2)	-
CAD ratio	12.6%	16.5%	17.4% (2)	-
Number of staff	5 068	4 955	4 710	-4.9%

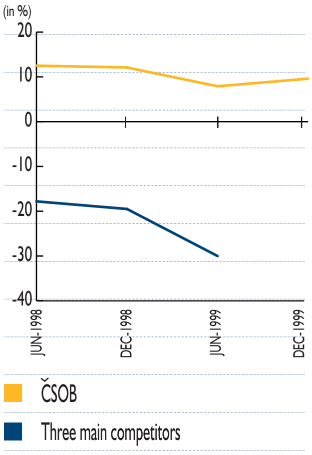
(1) Before profit appropriation.
(2) According to Czech accounting standards.

The reorganization continues

For ČSOB, the first half of the year was marked chiefly by its privatization. Management discussions on the subject indicated a considerable willingness on the part of the ČSOB management to transform the bank after privatization into one along Western lines. This was a good starting point for a transfer of know-how from KBC to get under way after privatization. KBC specialists were sent to fill key positions, reinforcing ČSOB's team, and in October 1999, 100 days after privatization, a blueprint containing an implementation and reorganization plan was submitted, which is now being put into effect. The fundamental intention of KBC/ČSOB is to provide support to ČSOB's corporate operations and to expand the retail operations. ČSOB will pursue a segmented approach to the clientele, based on four distinct customer groups: large international and domestic companies, financial institutions, SMEs and retail customers.

In the corporate segment, ČSOB will be looking to maintain its presence and develop it further. Via a customer-oriented approach, the emphasis will be on the cross-selling of commission-linked products, while the conservative policy in respect of credit risks will continue to be adhered to.

Return on equity : ČSOB vis-à-vis its three main competitors (*)



In the SME segment, a sharp expansion of activity is planned, the intention being for ČSOB to become a major player and market leader as regards quality of service. This will be achieved by the introduction of relationship managers and of additional products (including electronic ones) and by cross-selling leasing and insurance products.

The aim for the retail segment is to achieve a significant broadening of the customer base, and to this end a number of mainly relatively small, service-oriented branches will be added to the branch network in the Czech Republic and Slovakia. Call centres and self-service zones will reinforce distribution capacity and raise the level of service. Process re-engineering, furthermore, will sharpen customer-mindedness and the focus on private customers in existing ČSOB branches. The product range will be extended and improved. Because of KBC's bancassurance orientation, life assurance and pension products will also be offered.

To implement and follow-up this programme of change, the management information system will be improved, and efficiency will be enhanced by way of a large-scale rationalization programme at Head Office and in the network. Achieving both expansion and rationalization will naturally require substantial investment in new systems.

KBC lays the foundation for bancassurance in the Czech Republic

In respect of non-life insurance, the minority interest acquired in the Czech Chmelařská in 1998 was increased to a majority shareholding of 75.8% in 1999. Chmelařská is licensed for both life and non-life insurance, and concentrates chiefly on the non-life market, in which its share as at the end of 1999 came to 0.5%. As yet, premium income from life assurance is negligible. The company is still in the process of building up its position, which accounts for the negative results. The decision has been taken to change the name of the company from Chmelařská Pojišt'ovna to ČSOB Pojišt'ovna, a clear indication of the intent to operate in conjunction with ČSOB.

The abolition at the beginning of 2000 of the monopoly enjoyed by the largest Czech insurer, Ceská Pojišt'ovna, on the sale of motor liability insurance provides the opportunity for active exploitation of this market. ČSOB Pojišt'ovna is one of the eleven companies licensed to sell this type of insurance.

KBC's activities in Poland

Via Kredyt Bank,
KBC strengthens its position in Europe's fastest-growing banking market

In several steps during 1999, KBC raised its participation in the Polish Kredyt Bank from 9.9% to 48.6%, thereby becoming that bank's reference shareholder. Kredyt Bank is the fifth-largest bank in Poland, measured by customer deposits and lending. It has market shares of 4.5% in lending and 4.3% in deposits. It is, moreover, one of the two banks with a market share of more than 3% that is not a spin-off of the former state bank, but that was established in the post-communist period through private initiative. For this reason, it is also one of the only banks with a network (289 branches) not restricted to a specific region, but spread nationwide. Measured by the number of branches, it is the fifth-largest bank network in Poland. Kredyt Bank also functions as a financial services group, focusing specifically on private individuals (658 000 accounts) and SMEs. In addition, it has 90 000 corporate and institutional client accounts.

The combination of favourable economic growth and a still relatively underdeveloped banking market means that this last is enjoying brisk expansion, and Kredyt Bank has managed to steadily increase its share of this market.

(*) Example: JUN-1999 is based on the annualized profit/loss figure for the first half of 1999.

Key figures, Kredyt Bank

Consolidated (in millions of EUR) (Polish accounting standards)	1997	1998	1999	Growth 1998 → 1999
KBC participation	9.9%	9.9%	48.6%	-
Loans and advances to customers	1 088.9	1 703.2	*	-
Total assets	2 359.6	2 968.1	*	-
Net profit for the financial year	-21.3	34.8	*	-
Capital and reserves (after profit appropriation)	65.3	157.8	*	-
Return on equity	-33.5%	31.2%	*	-
CAD ratio	4.5%	7.6%	*	-
Number of staff	5 683	5 728	5 902	3.0%

(*) As Kredyt Bank is a listed company, no financial information can be released prior to 16 June 2000.

Key elements in 1999 and in the future

Kredyt Bank not only pursued expansion on the domestic front, but also built up its position internationally. The branch in Vilnius (Lithuania) and the representative office in Kaliningrad (Russia) were supplemented in 1999 by the acquisition of a 59.3% majority participation in the West-Ukrainian Commercial Bank.

In July 1999, Kredyt Bank received authorization to set up a pension fund, which, by the end of the year, had attracted nearly 100 000 clients. 1999 also saw the installation of the new Profile computer system being continued in the branches. Once installation is complete throughout the network (which should be the case by the end of 2000), Kredyt Bank will be in a position to drastically rationalize its processes and improve its efficiency.

For the future, Kredyt Bank is looking to build up its position as a strong national bank with a full range of products and services and a significant presence in the retail and SME segments and in investment banking. In particular, it is aiming to become market leader in the SME segment. It also plans to expand its branch network and raise its profile on the international markets. One trump that it holds in that respect is the BBB+ rating accorded by FITCH-IBCA (the same rating as for the Polish government).

As for its other Central European holdings, KBC will help Kredyt Bank achieve its plans for expansion. The upping of KBC's participation to 48.6% went hand-in-hand with a co-operation agreement, whereby KBC undertook to provide concrete advice, training and co-operation in the area of retail banking, corporate banking, internal audit and risk management.

Bancassurance is key in Poland, too

In Poland, KBC is seeking to achieve a joint offering of bank and insurance products, as is the case on its home market and in the other countries of Central Europe. This is made easier in Poland by the fact that Kredyt Bank was already viewing bancassurance as a source of profit, even before the advent of KBC as reference shareholder. This is reflected by, among other things, Kredyt Bank's 33.3% participation in the non-life insurer Agropolisa, in which KBC acquired a direct interest of 23.3% in 1999. Agropolisa is still primarily an agricultural insurer, but is looking to be seen as a general non-life insurer for Poland as a whole. It posted strong growth in 1999, with premium income more than doubling. Together with the Kredyt Bank, KBC Insurance is examining how a joint position can be developed and what the outlook is as regards bancassurance.

KBC's activities in Hungary

KBC reinforces its position in K&H

In Hungary, KBC strengthened its position in Kereskedelmi és Hitelbank (K&H) in 1999 by increasing its participation from 23% to 32.6%, which made it the reference shareholder. By way of a capital increase and a public offer at the beginning of 2000, it gained the majority shareholding (over 72%), representing an investment of some 82 million euros. With a market share of 8-10%, K&H is the third-largest bank in Hungary. It has a network of 130 branches, spread throughout the country. Historically, K&H was oriented principally towards the corporate and agrarian sectors. Following the bank's privatization at the end of 1997, however, a start was made on a programme to orient K&H more towards the retail segment, as well. As at the end of 1999, K&H Bank already had 191 000 retail accounts.

Strong improvement in operating results

K&H has experienced a negative trend of results over the past two years. In 1998, it published a loss of 3.7 billion Hungarian forint (15 million euros) and in 1999 one of 8.3 billion Hungarian forint (33 million euros). The losses had to do with the keen competition on the Hungarian market, where, indeed, many banks are loss-making. In 1999, two extraordinary factors, namely, a specific loss on a large loan concluded prior to privatization and the revaluation of buildings, which had previously been overvalued in its books, also came into play, so that a net loss of some 33 million euros was posted. However, the new management succeeded in eliminating most of the losses at the operating level, thanks to a radical reorganization and job-shedding (staff numbers dropped by around 20% in 1999). Despite the drastic reorganization, K&H still managed to gain some market share in 1999. In lending, for instance, its market share went up from 9.1% to 9.2%.

A radical shake-up in 1999

The overriding factor in the development of K&H in 1999 was the reorganization, achieved with the help of KBC staff. A segmented approach was introduced, whereby certain branches were given a new orientation, focusing exclusively on the retail segment. Segmentation as between retail and corporate operations was pushed through in the higher levels of the organization, where what had been uniform commercial regions were redivided into seven regions for the retail segment and five for the corporate.

There was also a thorough-going replacement of management up to middle-management level, achieved chiefly through external recruitment. A new manager was appointed in more than half the branches. Linked to an intensive training programme, a customer-oriented 'one teller' system was also introduced in all branches, with a view to enhancing flexibility and optimizing internal operations. Due partly to this reorganization, it proved possible to cut branch staff levels by 25%. A professional risk-assessment system was also developed and, last but not least, the basis was laid for a revamped, integrated IT infrastructure, which is currently being implemented, a process that will be completed before the end of 2001.

Key figures, K&H

Consolidated (in millions of EUR) (IAS)	1997	1998	1999	Growth 1998 → 1999
KBC participation	23.3%	23.1%	32.6%	-
Loans and advances to customers	805.2	907.9	979.9	7.9%
Total assets	2 021.1	2 086.0	2 244.8	7.6%
Net profit for the financial year	9.6	-14.6	-32.6	-
Capital and reserves (after profit appropriation)	147.4	117.8	79.5	-32.5%
Return on equity	9.1%	-11.0%	-33.0%	-
Tier-1 ratio	13.8%	9.3%	5.71%	-
CAD ratio	16.5%	11.3%	8.6%	-
Number of staff	3 974	3 709	2 969	-20%

Although the costs attendant on the introduction of this renewed IT system will undoubtedly weigh on results in the next few years, KBC is convinced that the far-reaching measures taken in the past year will lay the foundations for a fundamentally sound future in business-economic terms.

Bancassurance picking up in Hungary, too

In Hungary, KBC is following the same approach to the distribution of insurance as in the other countries in the region. In other words, the sale of life assurance has been tied mainly to the bank distribution network, in this case K&H's. Production is handled via K&H Life, in which KBC has a 25% interest and K&H one of 50%. 1999 was a crucial year for K&H Life, a year in which production came on line. By year's end, life assurance was being sold in all K&H branches, giving KBC a good foothold in the Hungarian life assurance market, which offers good prospects for growth, given the economic recovery, the drop in interest rates and the ongoing investment from the West.

For non-life insurance, however, KBC has opted for distribution via a network of agents. To this end and together with a number of international partners, it had already set up the company Argosz as long ago as 1992, taking a 95.4% participation. In the meantime, Argosz has captured a market share of 2.77%. In 1999, the company posted nominal premium-income growth of 25.8% and real growth of 15%. Although Argosz is gradually reaching cruising speed as regards its operating results, and the cost/income ratio is moving to an acceptable level, it posted a loss in 1999, due to the exceptionally severe storms and showers of hail in Hungary that seriously hit Argosz, in particular, with its considerable agricultural portfolio.

10.40 a.m. - KBC User Help Desk, Investments, Brussels

Corporate services

Corporate services

Description of activities and contribution to the result

Corporate services embrace all activities in respect of corporate banking, investment banking, insurance brokerage and reinsurance. Both standardized and specialist, customized products and services are offered.

In 1999, this area of activity accounted for 26.8% of the consolidated net profit of the KBC Group, as against 27.9% the previous year. There was a 9.6% return on equity. This relatively low figure is related to the fact that bank lending, given the excessively tight interest margin, is resulting in a substantial capital charge. Consequently, one of the tasks facing the KBC Group in the years ahead will be to improve both the profitability of its lending activities and the allocation of resources to other lines of business.

The growth of gross operating income is due to, among other things, the sharp increase in income earned by the branches abroad (84 million euros), the transfer of around 900 customers from the retail segment (impact, 17 million euros), the increased participations in the Antwerpse Diamantbank (34 million euros) and the Irish Intercontinental Bank (impact, 6 million euros), as well as to the organic growth of primarily the domestic and multinational segments.

Key figures for this area of activity

(in millions of EUR)	1998	1999	Change
Banking			
Gross income	684.5	878.5	28.3%
Operating charges	-277.0	-352.4	27.2%
Cost/income ratio	40.5%	40.1%	-
Write-downs and provisions	-165.8	-213.3	28.6%
Other results	-12.9	-18.3	41.6%
Taxes	-2.3	-32.5	-
Net contribution to profit	226.5	262.1	15.7%
Share in Group profit	28.4%	27.0%	-
Insurance			
Earned premiums, net of reinsurance	90.8	124.3	37.0%
Net technical charges	-93.9	-118.9	26.6%
Net income from investments	44.6	42.3	-5.1%
General administrative expenses	-32.0	-40.5	26.5%
Non-recurring and extraordinary results	-2.4	0.0	-
Other results	-10.3	-9.4	-8.6%
Taxes	-0.6	-0.3	-56.5%
Net contribution to profit	-4.0	-2.5	-36.3%
Share in Group profit	-0.5%	-0.3%	-

This table is based on a lay-out used for internal reporting purposes which differs from the annual accounts as regards the breakdown of the profit and loss components.

Although costs in this segment have risen sharply, this is clearly related to the increase in activities, and since costs and income have gone up at more or less the same rate, the cost/income ratio has remained stable. The significant increase in write-downs and provisions is attributable in part to those taken for Trade Finance, Southeast Asia and Germany. The non-recurring write-downs and provisions comprise the provision for country risks and the general provision for foreign credit risks.

In the insurance business, this area of activity encompasses the results achieved by Secura (reinsurance) and by ADD (insurance brokerage). The other results include a transfer of 5.5 million euros to the results not allocated to the Group, in accordance with the surplus capital and reserves in these companies.

The domestic corporate segment

Clients and distribution channels

The KBC Bank & Insurance Group offers a comprehensive package of financial services to medium-sized and larger, generally international, companies that have need of more complex bank and insurance products and specialized services in the area of financial engineering, international trade and risk management.

A key feature of the service provided to companies on the domestic market is personalized relationship management, which is carried out via twenty-three corporate branches. These are KBC branches specially set up to cater for this target group and to bring the customized service and advice provided by relationship managers (each of whom handles a limited number of accounts) as close as possible to the client. If companies active internationally have a banking relationship with one or more of KBC's establishments abroad, a relationship manager is appointed to play a co-ordinating role that covers all the client's establishments (so-called 'co-ordinated relationship management'). KBC's greater presence in Central Europe, moreover, has resulted in a substantial improvement in the provision of services to companies with commercial interests in that region.

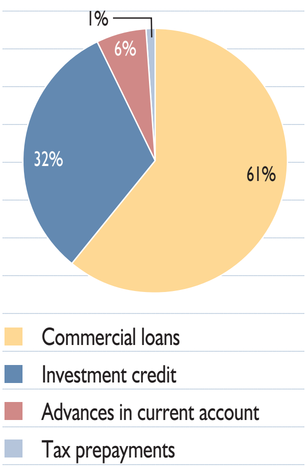
KBC relationship banking is designed to be a partnership with companies, a commercial relationship lasting throughout the life of the company. The KBC Group is therefore at the service of its corporate customers at important moments in their development: when they expand into international markets, for instance, take the company public, decide to merge with or acquire another company, and so on.

The segmentation of the corporate market continued in 1999. Companies which had so far been served via retail branches, but which qualified for corporate services, were transferred to corporate branches, after in-house discussions and with the approval of the client. 1999 saw approximately 900 such transfers and, as at the end of the year, 11 000 companies were being served by the corporate branches.

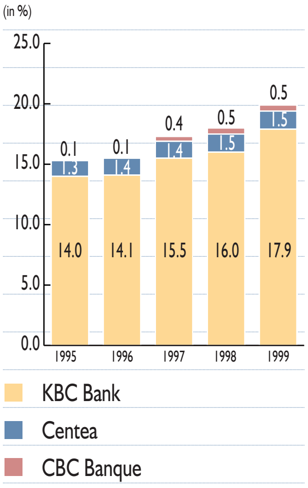
The integration of banking and insurance services offers significant added value to the services provided in the corporate segment and important steps were therefore taken in 1999 concerning the insurance products on offer:

- for non-life insurance and group assurance, corporate branches now work closely with the insurance agents and specialists at KBC Insurance and with the captive broker, ADD;
- insurance is now fully integrated into a comprehensive package of services;
- for pensions, the corporate client now always has the choice between an independent pension fund and group assurance;
- the insurance package for companies was optimized and corporate insurance portfolios will be thoroughly analysed using the so-called 'Risk Management Study tool';
- the integrated offering of insurance solutions likewise led to a contract works policy, which provides cover for a broad range of risks associated with building sites.

Breakdown of lending to corporate customers



Commercial lending : KBC group market share (*)



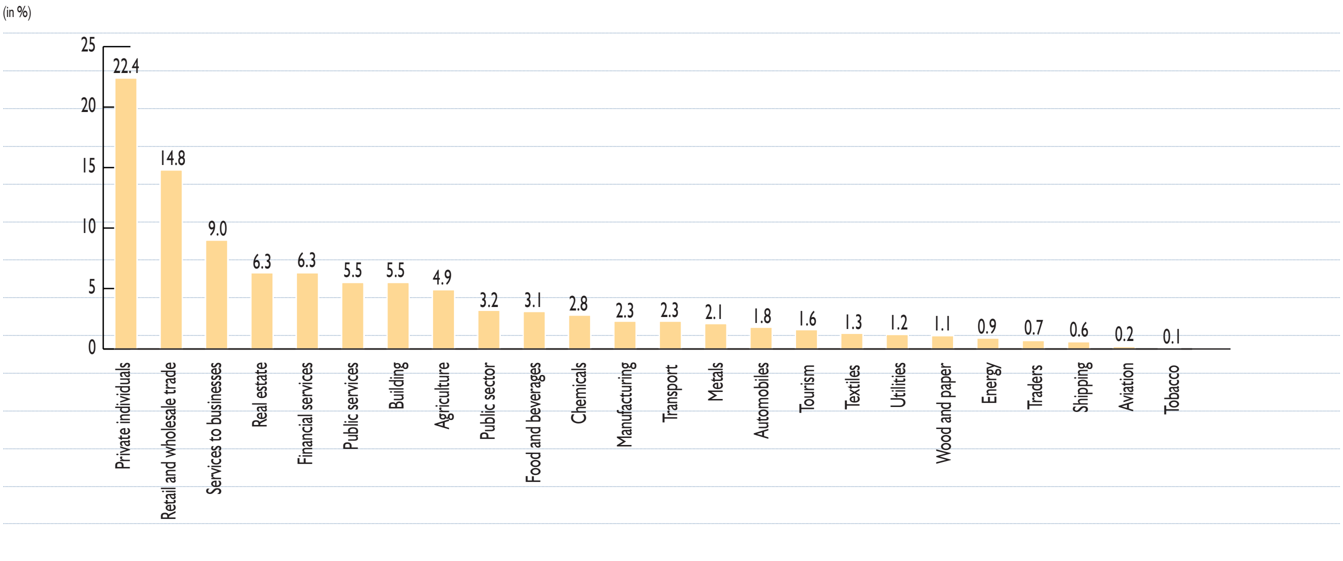
Domestic lending

In 1999, the portfolio of corporate loans grew by 30%, to reach a total of nearly 10 billion euros, accounting for a rounded 29% of domestic lending. It increased principally during the first half of the year, owing in part to the transfer of larger retail accounts to the corporate branches.

The organic growth in lending to the corporate segment was due primarily to the increase in (short-term) straight loans. During the second half of the year, however, there was also a gradual increase in investment credit.

The quality of domestic commercial loans (to the self-employed and local businesses, and to medium-sized and large companies) is good: 2.41% of the portfolio is accounted for by doubtful loans, 71% of this amount being covered by specific write-downs. The remainder of the doubtful loans are covered by adequate security.

Sector breakdown of domestic lending (**)



International payments

The introduction of the euro brought about fundamental changes in the international payments business. Where, previously, a payment in Belgian francs had been settled in Belgium via a credit institution there, the same payment in euros can now be settled in any country of the EMU. This has not only led to substantially keener competition, but also served in the initial phase to create a great deal of confusion. KBC is a member of the Heathrow Group of international banks that, in consultation with SWIFT and other institutions, examines the practical operation of the euro payments market and makes adjustments by submitting recommendations to the European Banking Federation.

(*) Market share vis-à-vis **all** Belgian credit institutions; the figure for 1999 is an extrapolation of the market share vis-à-vis the group of large credit institutions. The market share relates, on the one hand, to the entirety of credit granted to the self-employed and to local businesses (the retail segment) and, on the other, to medium-sized and large companies (the corporate segment).

(**) Sector breakdown data relate to all domestic lending, nearly a quarter of which is accounted for by loans to private individuals (retail segment). The remainder is accounted for by loans to the self-employed and local businesses (retail segment), and to medium-sized and large companies (the corporate segment).

KBC Bank has succeeded in its intention, with the introduction of the euro, to build further on the leading position it had as an ECU clearing bank, and was rapidly able to position itself as a major payments bank in the euro zone. The number of international payment transactions that the bank processes each day rose by more than 50% in comparison to 1998. Because the majority of cross-border payment transactions are now settled in component currencies of the euro, no further income was derived from margin on exchange transactions, causing the gross result to fall by approximately 28 million euros.

Continuous efforts are being made by KBC Bank to optimize international payments. For this reason and because of the introduction of the euro, payments within Europe, in particular, have become significantly simpler and cheaper. Depending on the nature and size of the transaction, the rates for cross-border payments last year were in most cases 25-64% lower than in 1998. Transactions in foreign banknotes from the euro zone were generally 50% cheaper.

In this way, KBC has responded to the demand of the European Commission to make such transactions more transparent and cheaper. Further price cuts were prevented mainly by a lack of uniform international standards for data exchange and settlement, and the total absence of any harmonized exchange regulations at European level. As one of the pioneers of IBAN (International Bank Account Number), KBC is already prepared to use this uniform account-number-structure to fully automate the processing of payment transactions.

Thanks to intensive and extensive preparations and testing, the transition to the year 2000 passed without any problems worthy of note.

International cash management

The introduction of the single currency prompted KBC Bank to radically alter its international cash management services. Among other things, it introduced a cross-border, notional cash pool in the euro zone, an innovative product that highlighted the bank's image in international cash management. The positive response from clients and prospects alike confirmed the commercial effectiveness of this product. An additional measure was to make existing cash-pooling systems within the KBC Group multi-currency, which will enable the KBC network worldwide better to respond to the internationalization of its corporate clients. The quality of service was improved by consolidating commercial, technical and logistic support into a single entity with bank-wide responsibility for international cash management.

A substantial improvement in international service was brought about through both multi-lateral and bilateral co-operation agreements. In May, a cross-border approach towards corporate liquidity management was officially introduced. Called UniCash, it is an initiative of the Unico Group of Banks and offers a uniform service in eight European countries via a network of strong local banks.

KBC is also a founder-member of the IBOS World Banking Alliance, which offers companies the opportunity to conduct their cross-border liquidity management in real time. The geographic scope of IBOS was extended with the accession of HypoVereinsbank in Germany and the Bank of Ireland, so that IBOS now covers fifteen countries in Europe, America and Asia. In the market, IBOS is being increasingly seen as the main alternative to global banks.

Foreign trade

The Foreign Trade Division took shape in 1999 with the full integration of the various commercial and processing entities. Besides the traditional payment and financing techniques, such as documentary collection, documentary credit, foreign bank guarantees and forfaiting, the division also specializes in medium- and long-term export finance.

During the past financial year, the commercial team was expanded, and its task is to provide clients with the best solutions for all aspects of their foreign trade transactions. To this end, it calls on other services both within and outside the bank. This gives clients a single point of contact within the bank, where they can turn with all their problems and questions concerning international trade.

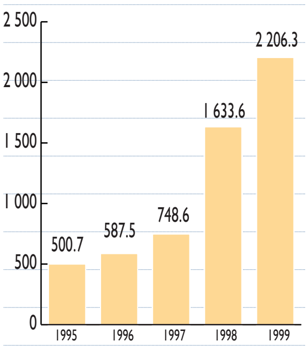
The KBC team for medium- and long-term export finance has captured a prominent place on the European market, using a variety of financing techniques, ranging from the traditional buyer's and supplier's credit to more complex constructions.

Real estate

Real estate activities are concentrated within a separate profit centre and are broken down into financing for real estate professionals, real estate securitization and real estate investment.

Market capitalization : real estate BEVAKs

(in millions of EUR)



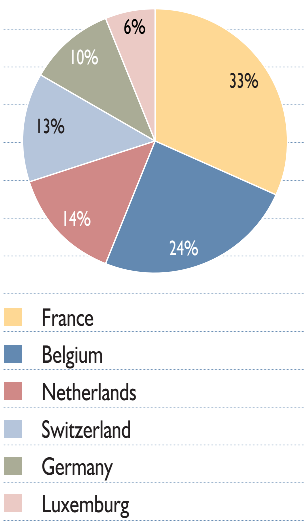
Financing for real estate professionals

The production of new lines of credit for real estate professionals doubled to reach 25 million euros; 56% of this related to office buildings, 12% to residential property, 22% to commercial premises and 4% to land. The doubling of production reflects the reputation that KBC has built up on this market, which is leading to ever more and better opportunities opening up. No write-downs had to be entered in 1999 on real estate loans. Indeed, the follow-up of these loans is intensive and the entire portfolio is subject to regular screening with a view to detecting any problems at the earliest possible stage.

Real estate securitization

The real estate securitization activities were conducted against the backdrop of a rapidly developing market in closed-ended real estate investment funds or BEVAKs. KBC Bank manages a portfolio of securitized real estate worth approximately 470 million euros. In 1999, it acted as lead manager in the successful introduction of PeriFund CVA on the Brussels stock exchange and in the capital increase of the Retail Estates BEVAK. Various securitization operations are in the pipeline and will see the light of day in 2000, provided conditions are right on the stock market.

Vendor leasing : breakdown of production



Real estate investment

KBC's own real estate portfolio, destined for future securitization, was expanded further to include office buildings in Zaventem, Hoeilaart, Diegem and Luxemburg, all of which have been fully let. The 'Airway' office park was contributed to the real estate BEVAK PeriFund, resulting in a gain of about 10.9 million euros. The total value of the real estate portfolio amounted to approximately 200 million euros as at the end of 1999.

KBC Lease

KBC Lease began operations on 1 January 1999, amalgamating eight domestic and five foreign companies. The leasing company for the Group continued to undergo a number of corporate adjustments in 1999, but for various reasons virtually all the domestic companies are still legally in existence, albeit only during this transitional phase.

On the domestic market, KBC Lease is aiming to expand market share in both financial and operational leasing, as well as to achieve further expansion in long-term automobile leasing. KBC Lease is also active in vendor leasing in all its various forms, and here the availability of an international network is proving increasingly to be a great asset.

Production	1998	1999
Leasing, in millions of EUR	353.2	384.3
Vendor leasing, in millions of EUR	162.5	222.9
Full service, number of automobiles	5 134	6 007

In markets where conditions were favourable, the rate of market growth was generally bettered, with 1999 proving to be a record year for leasing production. However, margins continued to be heavily squeezed. The ambitious targets for profit on ordinary activities and for loan losses, were more or less achieved. Nevertheless, where loan losses had been well below the statistical long-term average in 1998, they exceeded it in 1999, casting a bit of a shadow over the positive results.

While the growth targets have not been lost sight of, the year 2000 will be devoted to improving quality and productivity by way of, among other things, the revamping of IT systems, some of which has already taken place. The focus will also remain on pan-European vendor leasing, and reinforcing this will be the expansion of the available network via co-operation with KFC (the UK leasing company of the KBC Group) and the KBC presence in Central Europe, among other things.

Key figures, KBC Lease

Consolidated (in millions of EUR)	1998	1999	Growth 1998 → 1999
KBC participation	99.97%	100.0%	-
Loans and advances to customers	1 284.1	1 180.7	-8.1%
Total assets	1 574.0	1 600.5	1.7%
Profit for the financial year	8.7	3.5	-59.5%
Capital and reserves (after profit appropriation)	69.1	70.4	1.9%
Return on equity	9.5%	5.1%	-
Number of staff	248	264	6.5%

International Factors Belgium

International Factors Belgium (IFB) is the joint factoring subsidiary of KBC Bank and BBL, each of which holds 50% of its capital. On the heavily concentrated domestic market, IFB has a market share of 36%, which puts it in the number two spot.

At the beginning of 1999, the decision was taken to sell the activities of CERA Factors, a wholly-owned subsidiary of KBC Bank, to IFB. In a market where economies of scale are very important, there was no sense in keeping CERA Factors a separate company. On 26 March 1999, the clientele and some of the staff of CERA Factors were integrated into IFB. At the same time, account management was introduced and commercial support split for service to KBC, BBL and IFB clients. This will encourage co-operation between IFB and branches of the two shareholder-banks.

It was also decided to extend the IFB range of products to include credit insurance, commercial information and collection services. The 'factoring-vendor' has made way for the credit management consultant looking to find individual solutions to the accounts-receivable problems of his clients. The new marketing campaign takes account of the new strategy, the various target groups and the different goals.

Factoring volume at IFB was up 26% on the figure for 1998, growth that is largely accounted for by the take-over of the activities of CERA Factors. Total income went up less strongly than volume, and costs rose by 41% because of non-recurring expenses for, among other things, the acquisition of CERA Factors and the transition to the year 2000. Write-downs on trade receivables doubled from their extremely low level of 1998. The steep increase in depreciation on fixed assets had to do with investment in a new IT platform.

Key figures, IFB

Consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 - 1999
KBC participation	50%	50%	50%	-
Total assets	197.3	218.7	293.1	34.0%
Profit for the financial year	2.3	3.6	2.3	-36.0%
Capital and reserves (after profit appropriation)	9.1	11.2	11.9	6.7%
Return on equity	20.4%	36.0%	20.2%	-
Number of staff	65	68	86	26.5%

ADD - insurance broking

The consolidation that has been taking place among insurance brokers these last few years will probably continue for some time yet. On the Belgian market, ADD has meanwhile captured fourth place among the brokers concentrating on business risks.

Whereas brokers have seen their market share in personal risk insurance decline in favour of other distribution channels, they have been able to hold their own in corporate insurance. However, the corporate segment is being faced with a new phenomenon that has made its way from the Anglo-Saxon world. Internationally renowned consultancies are steadily becoming more active in risk management, while, in the business world, interest is growing for alternative techniques for transferring risk. As a result, the traditional offering of insurance products will gradually have to give way.

This trend and the keen price competition prevailing among insurers are likewise prompting the big broking firms to venture into risk management consultancy. At the same time, the traditional commission (as a percentage of the premium) is gradually being replaced by remuneration for services performed (with proven added value). ADD is naturally actively responding to these trends.

ADD posted a negative operating result for 1999, a consequence of a significant correcting entry made on the books, merger-related expenses and the writing-off of the portfolios that were taken over.

In 1999, the merged entities were integrated, both physically and organizationally. In the early part of 2000, migration to a single IT platform will take place. Despite a great deal of energy being expended on the merger, product innovation continues unabated and has included a first in respect of providing insurance against environmental damage. As regards distribution, ADD is focusing its attention on the larger companies, partly in co-operation with KBC Bank's corporate branches. Accession to the Worldwide Broker Network (WBN), which has members active in five continents, has made a considerable contribution to the company's international positioning.

Secura - reinsurance

The close of the 1999 financial year marked a cyclical low for the reinsurance market. The hoped-for return to sound and more technically justified reinsurance conditions failed to materialize. With the favourable results on the financial markets serving to boost the capital and reserves of reinsurers, they are inclined to look for turnover growth. In combination with shrinking demand - partially a consequence of the concentration of the insurance market in Western Europe - this is leading to unbridled competition.

Moreover, the storms in the latter part of the year which caused unprecedented damage in Denmark and France especially, weighed heavily on reinsurers' balance sheets in 1999, as did the earthquakes in Turkey, Greece and Taiwan, and the abnormally high frequency of tornadoes in the United States.

Following the storms of 1990 in Europe and those of 1992 in the US, the reinsurance offering was severely scaled down, giving rise to the emergence of less traditional (alternative) forms of reinsurance. Secura is now already preparing to play its part should the situation repeat itself, which it is indeed quite likely to do from 2001 onwards.

Although Secura posted a 4.4% increase in premium income in 1999, the net result it recorded (8.4 million euros) was substantially lower than that for 1998 (10.1 million euros). Several reasons are behind this development. In the first place, the amount of gains realized in 1998 had been exceptional, 3.7 million euros more than in 1999. Secondly, strong competition depressed the technical results, although the unfavourable technical result for 1999 was somewhat offset by the positive change in past provisions for outstanding claims. Thirdly, the natural disasters that occurred in 1999 did not leave Secura's portfolio unscathed. Thanks to a major retrocession to, among others, Securlux, a Secura subsidiary, the impact of the storms on the result was limited to 1.25 million euros. However, Securlux drew 3 million euros from the equalization provisions set aside for this purpose.

Key figures, Secura

Non-consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	52.51%	52.51%	52.51%	-
Gross technical result	370.3	424.0	447.7	5.6%
Investments	357.3	383.0	414.0	8.1%
Profit for the financial year	7.4	10.1	8.4	-16.8%
Capital and reserves (after profit appropriation)	86.9	93.9	98.9	5.3%
Return on equity	8.7%	11.2%	8.7%	-
Number of staff	89	85	93	9.4%

The KBC Bank & Insurance Group abroad

Impact of the international strategy on the presence abroad

The bank's international strategy is aimed at developing bancassurance activities in the euro zone and in Central Europe, as well as at developing activities in such specific fields as traditional and structured lending and money and capital market operations. Another objective is to achieve a diversified international presence to cater for corporate customers and multinationals (see the separate chapter on 'The major thrust of strategy' for more details).

In line with the international expansion that has already been realized and with economic developments worldwide, KBC Bank's international network was reorganized to some extent. As strategic participations were acquired in the countries concerned, the representative offices in Warsaw, Budapest and Prague were closed. Similarly, the representative office in Moscow will also be closed, as ČSOB, KBC's Czech subsidiary, has a representative office there.

In the Far East, the role of Hong Kong as the gateway to the People's Republic of China has diminished since Hong Kong's reintegration into that country. KBC Bank has already set up three establishments on the Chinese mainland, including one in Shanghai, a city which in time will become the financial centre of China. Consequently, KBC Bank has scaled down its presence in Hong Kong and moved the bulk of its lending and market activities there to Singapore. Given the general situation in Indonesia, KBC decided to close its representative office in Jakarta.

In South America, the Buenos Aires and São Paulo branches were shut down. Such a good relationship has been built up with local banks in the relevant countries that corporate services can be efficiently provided via those channels. Project and structured trade finance for the entire American continent is conducted via the New York branch.

Experience with the corporate segment in North Africa has shown that the insufficient potential there no longer justifies a presence in Tunis. An application has nevertheless been submitted to the Central Bank of Egypt to open a representative office in Cairo, and approval is expected in the next few months.

Overview of the international presence and activities

The KBC Bank & Insurance Group has a presence in twenty-five countries by way of eight important majority shareholdings in subsidiaries (not including sub-subsidiaries), four participating interests, thirteen branches, ten sub-branches and loan-producing offices (LPOs) and, lastly, nine representative offices. The KBC Bank branches and representative offices employ more than 700 people.

Activities of the branches and representatives in Western Europe

The branches in the UK, Germany, France and the Netherlands cater for big local and international companies and for Belgian clients operating in these countries. Consequently, these branches are active chiefly in lending, foreign trade, trade and project finance, and payments. The French branch also serves local high-net-worth individuals, and the London and Paris branches are involved in KBC Bank's market activities, reflecting the bank's strategy of having a presence in the major financial centres for this purpose.

The branch in Dublin is located in the International Financial Services Centre (IFSC), a special economic zone where the Irish government provides facilities to companies investing there in active companies and which thereby contribute to the economic development of Ireland. The Dublin branch is active in syndicated lending and asset-based swaps.

Branches	Established	Total assets (in millions of EUR)	No. of branches/offices	No. of staff
Ireland (Dublin)	1994	9 913.1	1	12
UK (London and Manchester)	1985	6 958.8	2	123
France (Paris, Wasquehal and Lyon)	1989	3 312.1	3	107
Germany (Frankfurt)	1998	980.7	1	11
Netherlands (Amsterdam)	1999	115.1	1	1

The representative offices provide commercial information and advice on investment plans to KBC clients, and develop banking relationships with local companies, banks and government bodies. The major competitors are other big, generally West-European, foreign credit institutions.

Activities in Central Europe

See separate chapter.

Irish Intercontinental Bank

From 1978 until 1999, what was previously the Kredietbank and is now KBC Bank had a 75% shareholding in Irish Intercontinental Bank (IIB), the remaining 25% being held by Irish Life & Permanent (IL&P), formerly Irish Life. In 1999, KBC reached agreement with IL&P on the acquisition of its 25% participation in IIB, whereupon IIB became a wholly-owned subsidiary of KBC Bank.

Set up in 1973, IIB is first and foremost a merchant bank that provides the Irish business world with a comprehensive range of products and services in respect of lending, cash management and, to a limited extent, private banking. It also acts as service provider for banks and companies active in the IFSC and in this capacity serves as back office for, among others, the KBC Dublin branch and KBC Financial Services Ireland (KBCFI), as well as for other banks and businesses.

IIB and its subsidiaries number most of the leading Irish companies among their clientele, as well as the multinationals active in Ireland. IIB's published profit has risen consistently since 1973.

Key figures, IIB

Consolidated (1) (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	75%	75%	100%	-
Loans and advances to customers	2 560.3	3 126.2	4 184.2	33.8%
Total assets	4 159.4	5 107.8	6 658.7	30.4%
Profit for the financial year	25.4	29.2	30.3	3.6%
Capital and reserves (after profit appropriation)	148.1	160.2	221.2	38.1%
Return on equity	17.9%	19.0%	15.9%	-
Tier-1 ratio	8.7%	8.8%	8.8%	-
CAD ratio	8.7%	8.8%	8.8%	-
Number of staff	333	360	437	21.4%

(1) Including the retail activities of IIB Homeloans and Finance, and Kredietfinance.

Via Kredietfinance Corporation, IIB is active on the leasing and commercial mortgage loan markets in the United Kingdom. It also operates on the Irish retail market (mortgage loans and consumer credit) via IIB Homeloans and Finance.

KBC Bank Nederland

KBC Bank Nederland (KBCN) provides a comprehensive service and caters for Belgian and Dutch companies, private individuals and the interbank market. KBCN has a network of ten branches (Rotterdam, Amsterdam, Breda, Maastricht, Eindhoven, Utrecht, Arnhem, Hulst, Oostburg and, since 1999, Hengelo) and competes chiefly with the big Dutch financial groups. Belgian companies operating in the Netherlands can turn to KBCN for a wide range of services, including loans, foreign trade and payment transactions. Besides serving their Belgian customers, the branches also canvass their allocated region with a view to building up a customer base of local, medium-sized to large companies. KBCN also provides a service to private individuals, more particularly the high-net-worth segment.

KBCN's results rose by 73.4% on their level for 1998, an improvement that is due to an increase in net interest income and to cost control. All corporate segments met the targeted figures for 1999 and some even exceeded them.

Key figures, KBCN

Consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	100%	100%	100%	-
Loans and advances to customers	868.2	1 077.2	1 072.0	-0.5%
Total assets	2 276.9	2 352.0	2 222.2	-5.5%
Profit for the financial year	8.5	5.0	8.8	73.4%
Capital and reserves (after profit appropriation)	81.3	94.4	99.1	5.0%
Return on equity	10.9%	5.7%	9.0%	-
CAD ratio	11.9%	11.2%	12.3%	-
Number of staff	285	291	302	3.8%

KBC Bank Deutschland

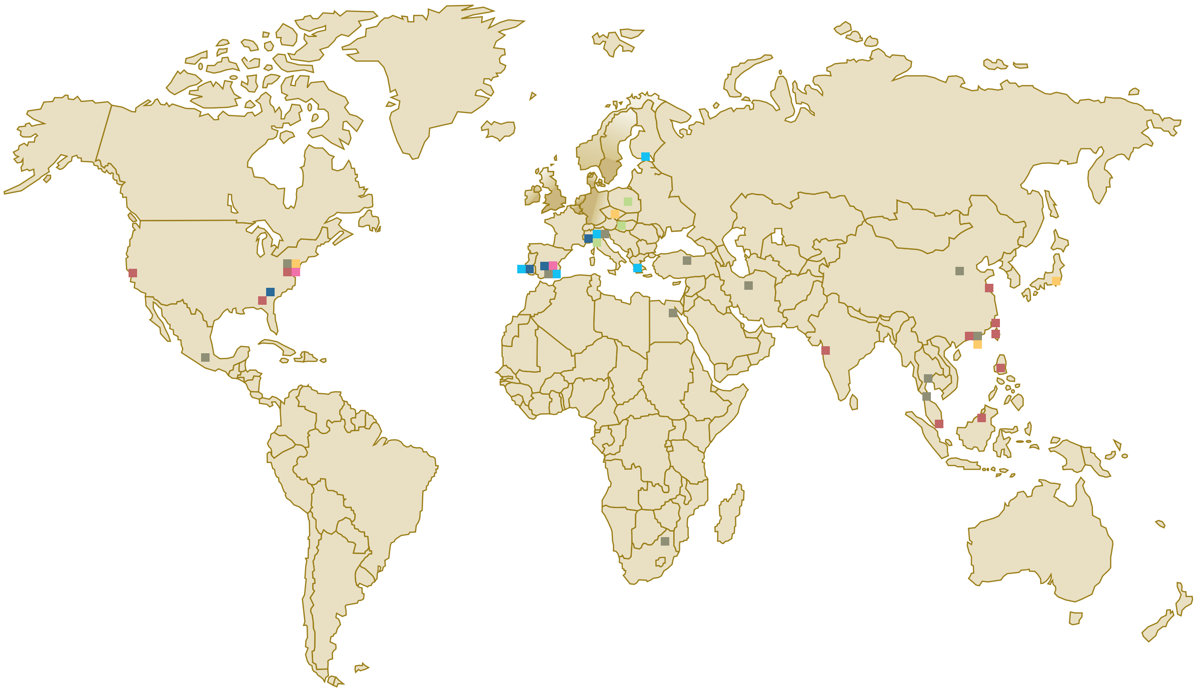
KBC Bank Deutschland (KBCD), formerly Kredietbank-Bankverein AG, has grown out of an existing German bank and has a strong, German customer base. Currently, it has a network of six branches (Bremen, Düsseldorf, Hamburg, Berlin, Frankfurt and Munich). KBCD serves primarily Belgian and German medium-sized and large companies, the interbank market and, in Bremen, high-net-worth individuals, as well. It offers a full range of products and services, mainly payments, loans and advice. KBCD is seeking to achieve selective growth through the deepening of existing relationships, a broadening of the product offering (with the emphasis on non-credit-linked income) and the provision of quality service by a team of specialist relationship managers. The KBC Bank & Insurance Group is expanding strongly in Central Europe and an all-out effort is being made to broaden the international trade services on offer, given that Germany is this region's major trading partner and largest foreign investor.

Activities and results in 1999 were still influenced by the restructuring that was undertaken in 1997 and 1998. There was further scaling-down of the services to clientele not belonging to the strategic target group. Although gross income for 1999 increased, major provisions for loans, and for three in particular, led to a weak result.

Key figures, KBCD

Consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	99.27%	99.34%	99.34%	-
Loans and advances to customers	334.1	281.3	320.7	14.0%
Total assets	928.8	511.7	489.7	-4.3%
Profit for the financial year	0.0	2.3	0.0	-
Capital and reserves (after profit appropriation) (1)	50.1	52.3	52.4	0.1%
Return on equity	0.0%	4.5%	0.0%	-
CAD ratio	-	-	13.5%	-
Number of staff	192	144	119	-17.4%

(1) Including 'Genussrechtskapital' (24 million euros).



Branches

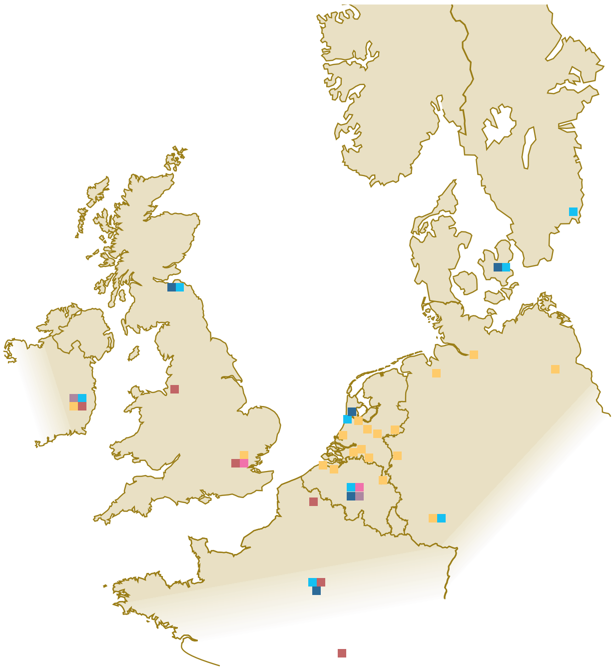
Philippines	Manila
France	Lille-Wasquehal
	Paris
	Lyon
Hong Kong	Hong Kong
Ireland	Dublin
Singapore	Singapore
Taiwan	Taipei
	Kaohsiung
United Kingdom	London
	Manchester
People's Republic of China	Shanghai
	Shenzhen
US	Atlanta
	Los Angeles
	New York
Malaysia	Labuan
India	Mumbai

Subsidiaries

Germany	Berlin
KBC Bank Deutschland	Bremen
	Frankfurt
	Düsseldorf
	Hamburg
Ireland	Dublin
Irish Intercontinental Bank	Dublin
Netherlands	Amsterdam
KBC Bank Nederland	Arnhem
	Breda
	Eindhoven
	Hengelo
	Hulst
	Maastricht
	Putte
	Utrecht
	Oostburg
	Rotterdam
Czech Republic	Prague
ČSOB	Prague
US	New York
KBC Financial Products	London
	Hong Kong
	Tokyo
	New York

Representative offices

Iran	Teheran
Italy	Milan
People's Republic of China	Nanjing
Malaysia	Kuala Lumpur
Spain	Madrid
Thailand	Bangkok
Turkey	Ankara
South Africa	Sandton
Egypt	Gizeh
Mexico	Mexico City



KBC Global Trade Finance Group

Belgium	Brussels
Spain	Madrid
United Kingdom	London
US	New York

KBC strategic participations

Hungary	Kereskedelmi és Hitelbank, Budapest
Poland	Kredyt Bank, Warsaw

Project Finance

Belgium	Brussels
Hong Kong	Hong Kong
Ireland	Dublin
US	New York

IBOS Association

Belgium	KBC, Brussels
Denmark	Unibank, Copenhagen
France	Crédit Commercial de France, Paris
Italy	Istituto Bancario San Paolo IMI di Torino, Turin
Netherlands	ING Bank, Amsterdam
Portugal	Banco de Comércio e Indústria, Lisbon
Spain	Banco Santander Central Hispano, Madrid
United Kingdom	The Royal Bank of Scotland Group, Edinburgh
US	First Union National Bank, Charlotte (North Carolina)

Inter-Alpha Group of Banks

Belgium	KBC, Brussels
Denmark	Unibank, Copenhagen
Germany	Berliner Handels- und Frankfurter Bank, Frankfurt/Main
Finland	Merita Nordbanken, Helsinki
France	Crédit Commercial de France, Paris
Greece	National Bank of Greece, Athens
Ireland	AIB Group, Dublin
Italy	Istituto Bancario San Paolo IMI di Torino, Turin
Netherlands	ING Bank, Amsterdam
Portugal	Banco Espirito Santo, Lisbon
United Kingdom	The Royal Bank of Scotland Group, Edinburgh
Sweden	Merita Nordbanken, Stockholm
Spain	Banco Santander Central Hispano, Madrid

Activities of the branches outside Europe

KBC New York

The New York branch is a wholesale bank that caters for large companies, more particularly the US top 1 000, and is specialized in market activities, which is consistent with the bank's strategy of maintaining a presence in all the financial centres. Belgian companies with activities in the US can also bank with KBC New York. This branch is licensed to offer all bank products permitted under US law. The main activities are lending and money market transactions. There are also two loan-producing offices (LPOs), one in Los Angeles and the other in Atlanta.

Southeast Asia

The various branches in this region serve chiefly the larger companies there, as well as Belgian companies doing business in Southeast Asia. These branches concentrate on lending, foreign trade, payment transactions and risk-hedging, and their main competition comes from the big European, American and Japanese banks. Hong Kong plays a major role in KBC Bank's market activities, although, as already mentioned, the focus in this region as regards lending and market activities will in the near future be shifting away from Hong Kong to Singapore.

In 1999, this region was still feeling the effects of the financial and economic crisis, which weighed on certain commercial activities. The Singapore, Hong Kong, Taiwan and Manila branches succeeded in deepening existing customer relationships and posted good trade finance results.

South Asia, the Middle East and South Africa

The end of March 1999 saw the opening of the branch in Mumbai, whose chief activities are:
- lending to major Indian companies;
- providing support to the Belgian and international clients of the bank in India;
- treasury activities in local currency and currency trading;
- on a worldwide basis, financing international trade to and from India.

Branches/offices	Established	Total assets (in millions of EUR)	No. of branches/offices	No. of staff
US (New York, Atlanta and Los Angeles)	1977	5 480.2	3	144
Singapore	1993	3 465.2	1	62
Hong Kong	1989	1 891.5	1	58
Taiwan (Taipei and Kaohsiung)	1995	717.9	2	59
Philippines (Manila)	1996	186.9	1	25
China (Shanghai and Shenzhen)	1997	162.6	2	48
Malaysia (Labuan and Kuala Lumpur)	1998	59.4	2	6
India (Mumbai)	1998	52.0	1	31

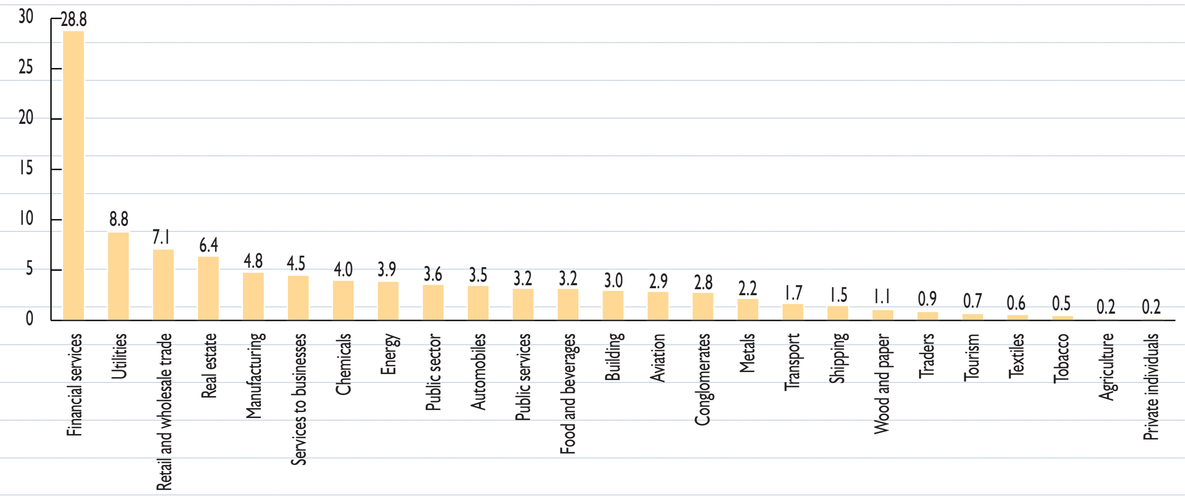
International lending

Last year, the international credit portfolio grew by 39% overall. This figure, however, masks substantial geographic differences. In certain emerging markets, such as South America and Asia, the portfolio stagnated, whereas in other regions - India and the Middle East, the US and Western Europe, for instance - there was pronounced growth. No more than 3.4% of foreign loans were to countries with a non-investment-grade rating.

The quality of international loans is sound (1). Only 1.88% of foreign loans are non-performing, and 63% of this amount was covered by specific write-downs. For non-performing loans not covered by specific write-downs, sufficient security, adequate secondary market prices or liquidation value is available.

Sector breakdown of international lending

(in %)



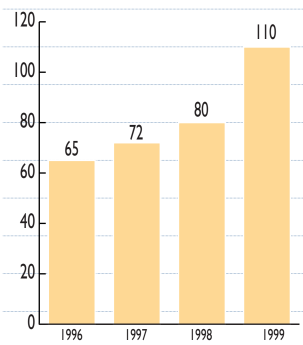
Multinationals

KBC Bank succeeded in further strengthening its position as main banker in the multinationals segment. As at the end of 1999, the bank's Multinationals Division was providing 110 multinational enterprises with tailor-made service.

The approach is driven by KBC's aim to enter into long-term relationships - which includes taking on important commitments - for lending and other services, but also to support specific, often trade-linked, international activities. 1999 was a successful year particularly in the following areas of activity:

- trade finance, where KBC Bank's share in financing the foreign trade flows of its clients grew - geographically as well - via both traditional and more structured products;
- project finance, where the bank played a leading role as arranger in various projects of importance to its clients, particularly in the energy sector;
- the hedging of interest-rate and exchange risks via both customary and derivatives techniques; despite the introduction of the euro, KBC Bank succeeded in maintaining its transaction volume with this client segment.

Number of groups served

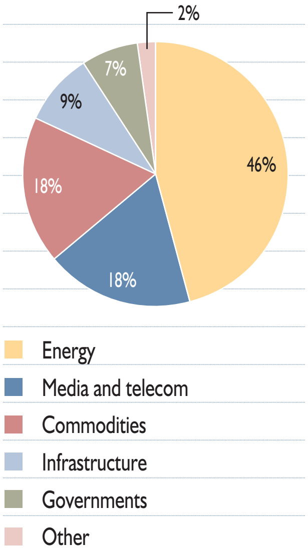


Key figures, Multinationals Division

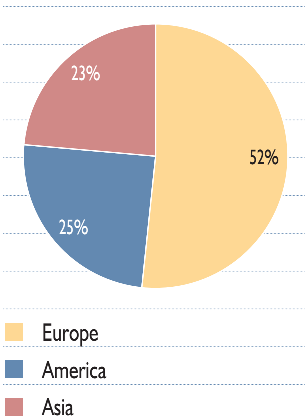
(in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
Gross income	26.4	33.4	44.0	31.7%
in Belgium	52.8%	50.8%	49.3%	-
abroad	47.2%	49.2%	50.7%	-

(1) These figures refer to total KBC Bank international lending, with the exception of ČSOB.

Portfolio breakdown by sector



Portfolio breakdown by region



Structured trade finance

The financing of emerging markets that are still having to cope with financial unrest, lower credit-worthiness ratings and, in general, negative reports represented a major challenge in 1999. Despite the difficult market circumstances, it proved possible to expand the KBC Group's structured trade finance business. This activity is handled by a separate entity, the Global Trade Finance Group, which is established in London and has regional offices in New York, Madrid and Sydney.

The successful co-operation with governments, parastatals and companies was stepped up around the globe. Indeed, the growing importance of the Global Trade Finance Group on the world market is reflected in the approximately 20% increase in the number of transactions in 1999. The country risk attendant on activities in emerging-market countries is limited to a considerable extent by the fact that transactions are based on the delivery of marketable commodities to creditworthy foreign buyers. In other words, the risk inherent in such transactions is restricted to so-called 'performance or delivery risk'. Only if the beneficiary of the financing fails to deliver the goods contracted for can KBC incur a loan loss. Nevertheless, substantial write-downs were posted for structured trade finance, primarily on a few large deals.

Project finance

It is KBC Bank's ambition to become one of the main international banks in this highly specialized activity. The bank therefore offers a worldwide service through a global team, with operational units in Dublin (via KBC Financial Services Ireland or KBCFI, for short), Brussels, New York and Hong Kong (via the branches). Set up in 1987, KBCFI has worldwide responsibility for project, aerospace and shipping finance for the KBC Group.

A team of thirty-five specialist staff give KBC the requisite know-how in this field. The team includes bankers, engineers, lawyers and economists with specialization in various areas, including electricity and energy, telecommunications and civil engineering.

In 1999, forty-five projects for a total amount of 1.5 billion US dollars were brought to a successful conclusion by the bank's Global Project Finance Unit, bringing the overall number of projects in its portfolio to more than 150 and putting KBC among the top twenty banks in the world as regards project finance, in competition with the big European and American institutions.

Financing for the international diamond trade: Antwerpse Diamantbank

KBC Bank raised its participation in the Antwerpse Diamantbank (ADB) from 36.94% to 87.17% in 1999 by acquiring the holdings of Fortis Bank and BBL. The company's capital was restructured, with the entire Fund for General Banking Risks and Internal Reserve for Latent Risks being replaced by subordinated liabilities. The impact of this restructuring on the profit for the financial year came to 59.5 million euros. The real consolidated operating profit of the Antwerpse Diamantbank Group totalled 16.6 million euros, up 32.8% on the figure for 1998.

ADB is established in the heart of the Antwerp diamond quarter, close to its clients. Its years-long presence there has enabled it to build up a very specific expertise, permitting highly customized lending. The personal and rapid service is characterized by a streamlined decision process and excellently organized handling of payment instructions; the bank also has a forwarding department for the preparation of export documents and the clearing of consignments. Lending to the diamond sector (outstanding loans as at 31 December 1999 totalled 1.1 billion euros) accounted for 70% of the total operating income of ADB. With a market share representing virtually 50% of total lending, ADB is market leader in Antwerp.

The close co-operation between KBC and ADB gives the latter more scope in which to develop internationally and to broaden its range of products. ADB will thus be able to utilize the presence of KBC in New York, Mumbai and Hong Kong to get itself established in these major diamond centres. In October 1999, moreover, ADB itself obtained a licence to open a representative office in New York. As at the end of December, credit granted to diamond firms in that city already amounted to 70 million US dollars or 7% of the total credit portfolio. In the space of a year, thus, market penetration of some 8% had been achieved in the Big Apple, and the new establishment already made a positive contribution of nearly 0.4 million euros to operating profit. The international diamond world is further served by the Geneva subsidiary Banque Diamantaire Anversoise (Suisse) SA, which is also active in private banking.

The growth of ADB's activities reflects the expansion of the diamond trade in 1999, more particularly the growth of the American market, resulting from, among other things, the major publicity campaign conducted by De Beers. Sales by De Beers rose to 5.2 billion US dollars in 1999 and nearly a quarter of this amount was paid through ADB. This led to record activity in the Antwerp diamond market, particularly during the second half of the year, and to a greatly increased level of credit drawdown.

Key figures, ADB

Consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	36.94%	36.94%	81.16%	-
Loans and advances to customers	762.3	733.8	1 165.6	58.8%
Total assets	914.4	857.8	1 440.4	67.9%
Profit for the financial year	12.1	12.5	76.1 (1)	-
Capital and reserves (after profit appropriation)	95.8	97.5	102.9	5.6%
Return on equity	12.8%	12.9%	16.6% (2)	-
CAD ratio	19.7%	20.9%	14.1%	-
Tier-1 ratio	16.5%	17.3%	8.8%	-
Number of staff	163	165	169	2.2%

(1) Including a transfer of 59.5 million euros to the Fund for General Banking Risks.
(2) Excluding the above-mentioned transfer.

Description of activities and contribution to the result

Private banking

Asset management

12.10 p.m. - KBC Head Office, Leuven

Private banking and asset management

Private banking and asset management

Description of activities and contribution to the result

Private banking and asset management comprise the private banking activities of KBC Bank and the business of asset management for private individuals and institutional investors, as well as for investment funds that are offered chiefly via the retail network. VITIS Life operates in this area of insurance activity.

The extremely favourable trend in **private banking and asset management** continued unabated in 1999: the 30.8% increase in its contribution to profit is attributable chiefly to the further growth of commission income derived from assets under management. In 1999, it accounted for 12.3% of the consolidated net profit of the KBC Group, as against 11.4% the previous financial year. The KBC Bank & Insurance Group achieved a return on equity of 49.3% in this segment, which is extremely high, due to the fact that, given the virtual absence of risk assets, the capital adequacy requirements for asset management activities are relatively limited.

Key figures for this area of activity

(in millions of EUR)	1998	1999	Change
Banking			
Gross income	188.9	235.6	24.7%
Operating charges	-68.4	-70.0	2.3%
Cost/income ratio	36.2%	29.7%	-
Write-downs and provisions	-2.3	0.0	-98.0%
Other results	-3.4	-2.1	-37.1%
Taxes	-27.1	-48.5	79.0%
Net contribution to profit	87.7	114.8	30.9%
Share in Group profit	11.0%	11.8%	-
Insurance			
Earned premiums, net of reinsurance	310.1	148.2	-52.2%
Net technical charges	-375.0	-224.2	-40.2%
Net income from investments	75.1	85.6	14.1%
General administrative expenses	-4.4	-2.5	-43.5%
Non-recurring and extraordinary results	-0.2	0.0	-
Other results	-0.2	-0.2	-
Taxes	-2.2	-2.8	24.9%
Net contribution to profit	3.2	4.1	28.9%
Share in Group profit	0.4%	0.4%	-

This table is based on a lay-out used for internal reporting purposes which differs from the annual accounts as regards the breakdown of the profit and loss components.

Private banking

Wealthy clients can turn to the private banking branches for specialist, personalized service. For their investment portfolios, most customers opt for the advisory management formula, whereby advice is provided by the private banking branches on the basis of general KBC investment policy. However, clients in this segment may also opt for discretionary management of their portfolios, in which case management is entrusted to the Asset Management Directorate.

Two new private banking branches were opened in 1999, a second branch in Brussels and one in Ypres, which brings the total number to eighteen. As there are still a great many potential clients and prospects that could qualify for the private banking service, the year 2000 will see a number of new branches being opened. As a matter of fact, many new employees were already added to the staff of the existing branches in 1999. As at the end of that year, a total of 191 people were employed in the private banking branches, handling 5 448 accounts (as against 4 701 a year previously).

The integrated offering of insurance products was promoted, and unit-linked life assurance products did pretty well. A specific product - an inheritance tax insurance policy - was also developed for the private banking clientele.

Partly because of a major case of fraud (which was largely covered by insurance), an even stronger separation was introduced in the course of 1999 between the front and the back office in private banking branches, and a number of measures were taken to reinforce internal controls.

Asset management

1999 dominated by the merger

The merger had an impact on the asset management business at various levels, both organizational and commercial. **Technically**, it had major implications, as it entailed, among other things, the standardization of procedures and the merger of the existing funds of the former Kredietbank, CERA Bank and Bank van Roeselare.

The KBC Bank Asset Management Directorate has been called upon to help manage the technical provisions of KBC Insurance, and a general framework agreement has accordingly been drawn up between the parties. Working on the basis of detailed ALM studies, the insurer's Executive Committee has set out investment strategies for the respective portfolios, and these strategies have been laid down in detailed management mandates, which will be periodically evaluated in the light of internal and external developments and adjusted where necessary.

Tactical policy is determined by the Investment Committee, which is chaired by the insurer and includes members of senior management and experts from KBC Insurance and KBC Asset Management. At the monthly meetings of this committee, KBC Asset Management reports on portfolio performance and positions compared to the benchmarks and advises on tactical adjustments.

As at the end of 1999, concrete co-operation agreements had already been worked out for four companies within the KBC Insurance Group - namely KBC Insurance, Fidea, Delphi and ADD - to manage 5.4 billion euros' worth of assets. Further co-operation is being looked into for Secura and VITIS Life.

Commercially, a very important step was taken in 1999 as regards cross-selling, with the breakthrough of insurance products linked to investment funds, the class-23 products. This market is in full expansion and at the beginning of June, the KBC Bank & Insurance Group consequently launched a broader offering. A good 934.5 million euros were invested in this type of fund during the second half of the year. In order to meet mounting demand from customers, the range of insurance funds will be broadened further during the year 2000.

Establishment of a Risk Control Department and the spin-off of Asset Management

The new Risk Control Department in the Asset Management Directorate is responsible for monitoring various risks. Accordingly, it keeps track of the portfolios under management, carrying out such tasks as performance reporting, checking whether managers have exceeded their mandate, whether the investment policy is being followed, and monitoring the risks in respect of guaranteed funds, counterparties, etc. Much of this department's responsibility also entails supervising the calculation of net asset value, portfolio bookkeeping, the contacts with auditors and internal audit.

On account of asset management regulations, more particularly those governing the management of investment funds, the relevant activities conducted at KBC Bank will be transferred to a separate legal entity, KBC Asset Management NV, in 2000. This subsidiary will provide full asset management services, to both institutional clients and private individuals.

Further integration and improvement of customer service

The approach to the investment clientele has been synthesized into the KBC Investment Service, which is aimed at offering an appropriate mix of investment products to each client, according to his or her risk profile. KBC Investment Advice and KBC Asset Management have been developed for the larger portfolios. Clients enjoying these services receive a detailed portfolio analysis two or three times a year. Additionally, their own investment portfolio is checked against KBC investment strategy and compared with the proposed target portfolio for their risk profile. These clients also receive interim advice and signals. Unlike KBC Asset Management clients, clients subscribing to KBC Investment Advice themselves decide, wholly independently, whether to use the advice given for placing orders on the stock market.

Launch of new investment funds and new compartments in existing funds

On the back of the 'KBC Investor's Bank' publicity campaign, KBC has launched no fewer than ninety new investment funds or investment fund compartments. This has propelled KBC Bank into top spot on the domestic market in Undertakings for Collective Investment (UCIs), with a market share of 28.2%. As at the end of 1999, the total net asset value of KBC investment funds amounted to nearly 35.0 billion euros, up 29.7% on the corresponding figure for 1998. More or less 70% of this increase was accounted for by net buy-ins, the remaining 30% by price rises.

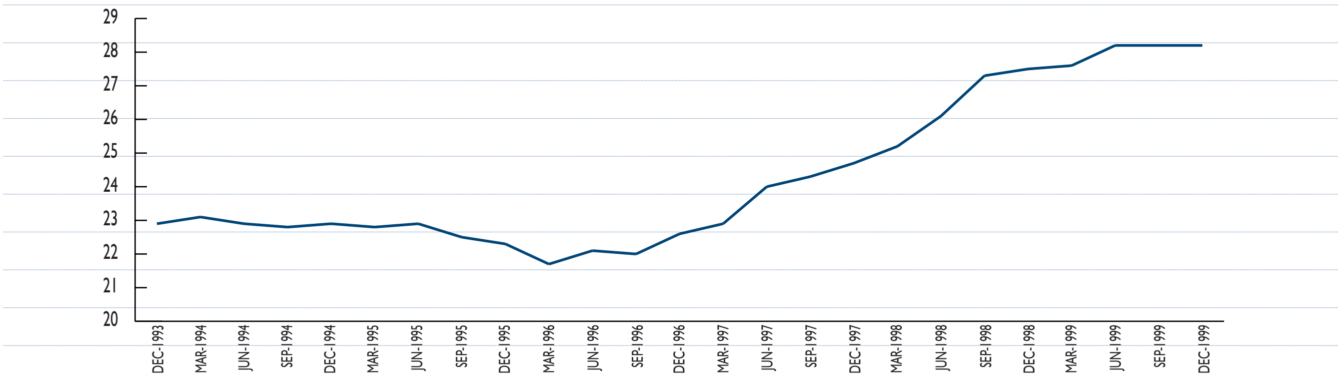
A relatively high degree of volatility prevailed on stock markets in 1999 and this had an impact on the pricing of KBC Equisafe investment funds in particular and to a less extent of KBC Click funds. However, continuous innovation allowed solid, reliable products to be offered to customers. The successful policy of launching several new funds at a time was continued in 1999, with each month seeing six to ten new products making their appearance, answering to divergent investment profiles: funds with or without capital protection, funds linked to investment in a particular sector, country or region, dividend and capitalization funds, and equity, bond, mixed and index funds, etc.

Undertakings for Collective Investment (UCIs): net asset value and KBC Bank market share

Net asset value (in millions of EUR)	31 Dec. 1997	31 Dec. 1998	31 Dec. 1999	Change 1998 → 1999	Market share 31 Dec. 1999
Bond UCIs	6 782.4	7 662.4	7 345.1	-4.1%	24.3%
Medium-term UCIs	109.1	183.4	215.7	17.6%	16.1%
Money market UCIs	956.9	768.5	716.4	-6.8%	15.7%
Equity UCIs	1 536.9	3 140.8	6 623.7	110.9%	20.7%
Guaranteed index UCIs	5 049.6	10 277.7	13 857.2	34.8%	51.3%
Mixed UCIs	1 232.0	2 506.2	3 686.2	47.1%	20.8%
Pension savings funds	1 554.3	2 171.5	2 179.0	0.3%	27.4%
Real estate UCIs	126.4	240.5	342.1	42.3%	10.6%
Total UCI net asset value, KBC Bank	**17 347.6**	**26 951.0**	**34 965.4**	**29.7%**	**28.2%**

KBC Bank's domestic market share for all UCIs since 1 January 1994

(in %)



Assets under management, according to client group

(in millions of EUR)	Institutional investors	Retail funds	Asset management	Total
Equity funds with capital guarantee	-	13 232.6	-	13 232.6
Shares	3 812.3	6 355.9	313.1	10 481.3
Fixed-income securities	5 474.1	4 646.8	265.5	10 386.4
Bond funds with capital guarantee	-	1 487.7	-	1 487.7
Mixed funds	-	3 534.7	-	3 534.7
Real estate, cash, money market funds and other	488.8	1 709.0	89.3	2 287.1
Unit-linked life assurance	-	107.9	-	107.9
Options and warrants	-	-	5.5	5.5
Total	**9 775.1**	**31 074.6**	**673.4**	**41 523.2**

Although the country orientation of the offering was not completely abandoned, the emphasis was clearly placed on deepening the concept of **sector funds**, with a particular focus on young and promising sectors. Innovations included a product directed at young people, an inflation-linked bond fund and theme funds, such as the Equity Fund New Shares, which is aimed at clients looking to invest in promising IPOs.

There will be no let-up of new launches in the year 2000 and KBC will again be attempting to capture significant market share. Each month will continue to see the roll-out of investment funds geared towards the various risk profiles that KBC has defined. A great deal of attention will be paid to new angles of approach, such as borrower diversification, a focus on promising sectors and the exploitation of topical investment themes. Moreover, given the higher interest rates, creative formulas based on fixed-income investment will also be developed.

VITIS Life (Luxemburg)

The Luxemburg life assurance market has become highly internationalized. This trend, that got under way in 1994 with the introduction of the European passport for life assurers, continued during the past financial year. It is estimated that a good 95% of premium income comes from policyholders resident in other European countries.

However, the international orientation of the Luxemburg market is not just in respect of premium income, but also company origin. Many of the insurance companies established in Luxemburg over the past few years are controlled by major groups registered in the European Union or elsewhere.

Having grown sharply during recent years, premium income stagnated at a high level last year, which, together with the further international spread of premium income, is a healthy development indicating that this still young market has gradually reached maturity.

VITIS Life targets primarily high-net-worth individuals requiring tailor-made life assurance. Indeed, its very specific and select clientele makes VITIS Life a real niche player. The company's distribution concept is matched to its product range and the nature of its clientele, with a team of relationship managers ensuring the highly personalized and professional management of client relationships. This subsidiary has another role to play in KBC Insurance, too, namely that of antenna picking up signals on the innovative Luxemburg life assurance market.

For VITIS Life, 1999 was a year of transition as far as its results were concerned. Premium income was lower than last year, down from over 310 million euros to 148.2 million euros. This decline can be accounted for partly by the new orientation of insurance products towards the segment of high-net-worth clientele. But, premium income is not made up of new premiums alone. It is

Key figures, VITIS Life

Non-consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	94.3%	94.3%	94.3%	-
Gross technical provisions	1 089.2	1 264.4	1 286.6	1.8%
Investments	1 087.0	1 280.2	1 286.4	0.5%
Profit for the financial year	2.0	4.2	3.8	-9.3%
Capital and reserves (after profit appropriation)	26.0	32.7	36.5	11.6%
Return on equity	8.7%	14.2%	10.9%	-
Number of staff	13	17	27	58.8%

also derived from the conversion of existing contracts into new life assurance linked to investment funds, so that the figure for premium income is not always a clear reflection of the company's performance. In this respect, 1998 had been an exceptionally favourable year.

The net profit figure for the company fell from last year's 4.2 million euros to 3.8 million euros. The figure of 3 million euros for profit on ordinary activities, i.e. profit after adjustment for extraordinary gains, on the other hand, remained at more or less the same level as in 1998. The ROE comes to 10.9%, close to the targeted 12.5%.

For 2000, a slight increase is expected in both premium income and in profit on ordinary activities.

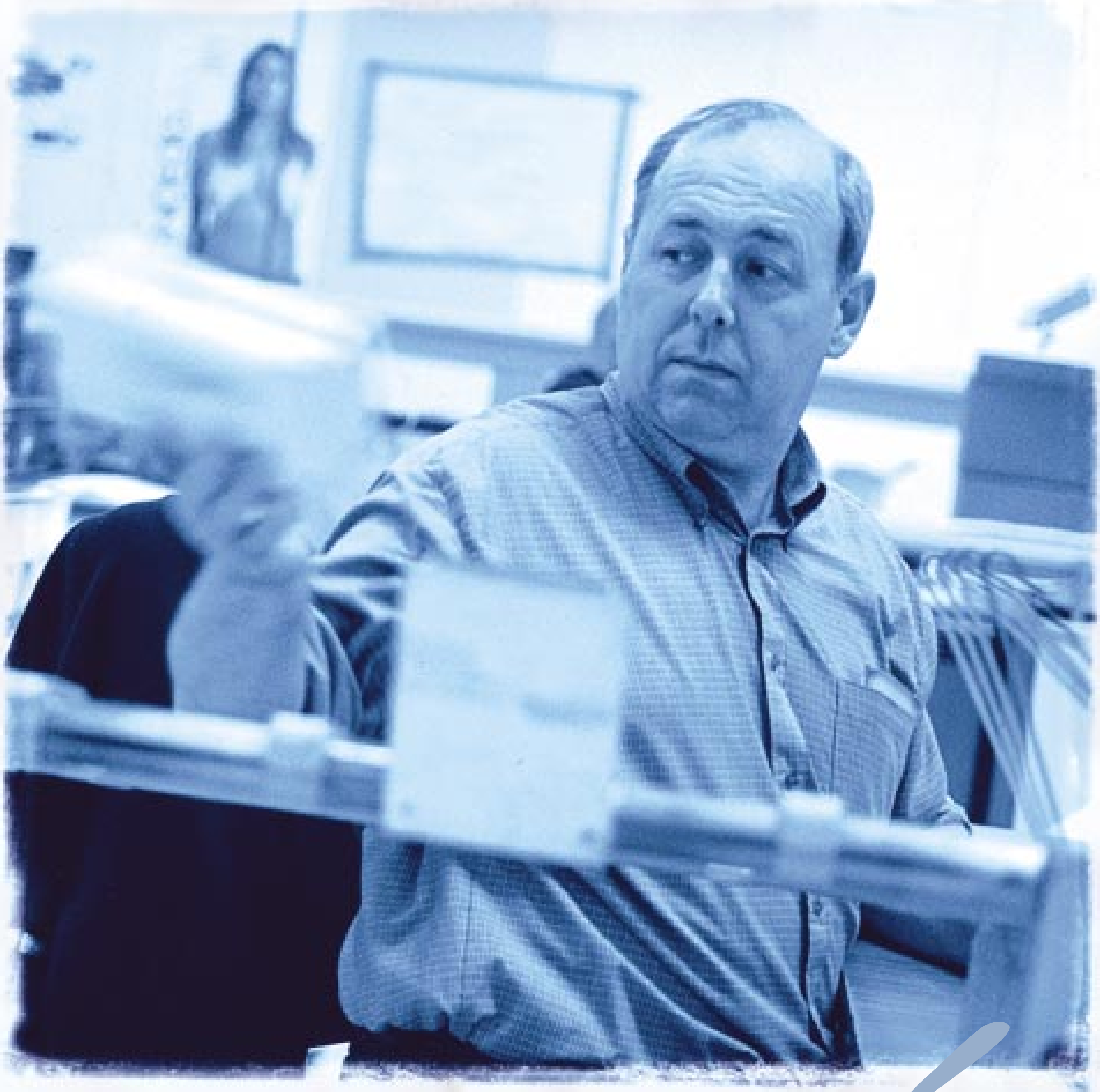
Description of activities and contribution to the result

KBC Bank

KBC Derivatives

KBC Financial Products

KBC Securities



1.20 p.m. - KBC Computer Centre, Mechelen

Market activities

Market activities

Description of activities and contribution to the result

'Market activities' comprise the activities of the KBC Bank dealing rooms and of such specialized subsidiaries as KBC Securities, KBC Derivatives and KBC Financial Products.

In 1999, these activities accounted for 8.5% of the consolidated net profit of the KBC Group, as against 22.6% the previous year. The sharp drop in gross income (down 183 million euros) resulted from the activities of KBC Bank's Belgian dealing rooms, which experienced a poor first half, in particular. However, the activities of the specialized subsidiaries continued to flourish and this was reflected in high growth figures for gross income, which was up 53% and 85%, respectively, at KBC Securities and KBC Derivatives.

Banking

(in millions of EUR)	1998	1999	Change
Gross income	402.4	292.6	-27.3%
Operating charges	-160.3	-202.4	26.3%
Cost/income ratio	39.8%	69.2%	-
Write-downs and provisions	0.0	-0.2	-534.2%
Other results	-10.8	-20.8	93.7%
Taxes	-50.9	13.4	-126.4%
Net contribution to profit	180.5	82.6	-54.2%
Share in Group profit	22.6%	8.5%	-

This table is based on a lay-out used for internal reporting purposes which differs from the annual accounts as regards the breakdown of the profit and loss components.

KBC Bank

Dealing rooms

Dealing room activities are organized according to a matrix structure. On the one hand, they are divided up along regional lines, more particularly across the zones of Asia, Europe, the US and Central Europe (the dealing room activities of this last region are supervised by the 'Regional Treasurer, Central Europe', a function created in 1999). On the other hand, via centrally managed product lines, emphasis is placed on derivatives trading, debt syndication and placements, and sales. This structure enables a broader range of products and greater know-how to be offered to various client groupings and counterparties.

The product lines were expanded by stepping up the sales activities, setting up a Credit Product Group in 1999, and further expanding the Debt Syndication & Placements department, initiatives that ought to permit KBC to exploit its expertise and offer an even wider range of products to the various groups of customers.

The dealing rooms' contribution to profit failed to meet expectations in 1999 and, in order to limit the volatility of future earnings, additional risk parameters were introduced. On top of this, trading in interest rate instruments in the Brussels dealing room was restructured: among other things, the 'Short-term Derivatives' and 'Proprietary Trading' desks were closed down. Internationally, it is now KBC's aim to be a major player on the pan-European market and a niche player in Southeast Asia and America, a recasting of strategy that led to market activity being scaled down at KBC Hong Kong. In the new Global Treasury strategy, the sales-oriented approach remains the No. 1 priority.

Since the beginning of October, market activities have been carried on in the new dealing room located in the Havenlaan, which is equipped with suitable systems.

Issues: Eurobonds and short-term paper

KBC was again a major player in the primary Eurobond market, acting as lead, co-lead or co-manager in more than 700 international syndicated loans.

KBC Bank launched a large number of commercial-paper issue programmes during the 1999 financial year, too, chiefly in euros. Its participation in an increasing number of ECP programmes by way of dealerships has permitted further internationalization in the placing of issued paper.

During the past financial year, KBC Bank launched an asset-backed commercial paper programme on the Belgian market, the first Belgian bank to do so. By means of a highly innovative structure that involved packaging amounts receivable and using them as underlying security, paper with a P1/F1+ rating could be placed on the market.

KBC Bank securitized 1.5 billion US dollars' worth of commercial loans from KBC New York's portfolio via the issue of asset-backed commercial paper.

Back Office

The Back Office was split up into three divisions: the Back Office - Dealing Rooms, the Middle Office and the Securities and Derivatives Clearing Division:

- the Back Office - Dealing Rooms provides operational support for deals concluded in the dealing rooms in Europe right across the product board;
- the Middle Office is responsible for all reconciliation, reporting and support activities;
- the Securities and Derivatives Clearing Division centralizes all services in respect of securities clearing and custody, derivatives clearing and keeping track of derivatives for both dealing rooms and third parties.

Risk management

ALM activities

For the bank, Asset & Liability Management (ALM) involves primarily the management of the structural interest rate risk arising in the traditional banking activities in euros, such as lending and deposit-taking. Starting in the second quarter, the ALM interest rate risk inherent in these activities was drastically reduced. As a result, after an initial decline in its interest income, the bank was able to raise it back up to the same level as at the start of the year, but with a substantially lower risk profile. At the same time, the share portfolio was both scaled down and fundamentally reoriented, which resulted in substantial gains being realized.

ALM interest rate risk: impact on interest income of a parallel 1% rise across the entire yield curve

(in millions of EUR)	End of 1998	-69	End of 1999	-24

Change in the Basis-Point-Value of the bond portfolio (with a shift in the yield curve of ten basis points) and in the Value-at-Risk of the discretionary share portfolio (99% confidence interval, 10-day holding period)

(in millions of EUR)	Basis-Point-Value	Value-at-Risk
End of 1998	56.2	45.8
End of 1999	28.0	8.5

Dealing rooms

The bank's dealing rooms focus exclusively on managing interest rate and exchange risks, while specialist subsidiaries (KBC Securities, KBC Derivatives, KBC Financial Products) concentrate on trading in shares and equity derivatives. In 1999, limits and the reporting system were further refined, which led to substantial savings in regulatory capital, among other things.

Change in the Value-at-Risk of the dealing rooms' interest rate- and exchange-linked transactions (99% confidence interval, 10-day holding period), and in the scenario analysis (for which a broad range of price and volatility shocks is applied) of chiefly the equity-linked activities of KBC Derivatives and KBC Securities

(in millions of EUR)	Value-at-Risk		Scenario analysis	
	Interest rate business	FX business	KBC Derivatives	KBC Securities
End of 1998	23.0	1.1	7.1	5.1
End of 1999	21.0	2.1	0.0	7.1

KBC Derivatives

At the end of December, KBC Bank reached agreement with Petercam on acquiring its interest in KBC-Petercam Derivatives, and KBC Bank is now the sole owner of that company. As a result, its name was changed to KBC Derivatives NV.

For KBC Derivatives, the 1999 financial year was characterized by further brisk growth. Results reached a new record high, a number of new employees were recruited and major investment was made in technology with a view to underpinning further growth.

Due partly to the continuing interest in equity investment worldwide, the market in equity derivatives was once again particularly lively in 1999. In Europe, there was enormous demand for hedging for guaranteed equity funds and bond funds offering a return linked to the yield on shares. The fledgling market in reverse convertibles was also lively and constituted an offering of volatility on the over-the-counter (OTC) market. Here, KBC Derivatives provided various issuers with cover for built-in share option components. KBC Derivatives also continued its traditional activity as an issuer of warrants, albeit on a more local scale. Forty-four new warrants were issued in 1999, primarily on European shares.

In its international expansion, KBC Derivatives continued to focus on Southern Europe. To improve customer service still further, an additional person was recruited to the commercial staff for Spain and Portugal, and intensive prospecting took place in France and the UK. Continuing international merger-and-acquisition activity led to a number of derivatives players disappearing from the market in 1999, as had been the case the year before. The emphasis KBC Derivatives places on customer service, as well as its activities aimed at ensuring a secondary market and transparency have attracted the notice of many new counterparties. Service is also underpinned by an Internet site that has been developed in-house, which permits clients to keep track of their positions.

During the past financial year, KBC Derivatives acquired the status of stockbroking company, and is now subject to direct prudential supervision.

Key figures, KBC Derivatives

Consolidated (in millions of EUR)	1997	1998	1999	Growth 1998 → 1999
KBC participation	60%	60%	60% (1)	-
Total assets	920.3	639.3	1 204.4	88.4%
Capital and reserves (after profit appropriation)	60.1	91.0	140.9	55.4%
Profit for the financial year	46.4	63.6	111.4	75.2%
Return on equity	84.4%	84.3%	96.2%	-
Number of staff	9	12	17	37.5%

(1) 100% since the start of 2000.

KBC Financial Products

In 1999, KBC Bank paid 107 million US dollars to acquire a number of the assets of D.E. Shaw & Co. L.P. (a prime player worldwide in the trading of convertible bonds and equity derivatives). KBC Bank has set up a new vehicle, KBC Financial Products, to carry on these activities. In line with KBC's strategy to expand into niche activities, the acquisition also offers opportunities for synergy with KBC Derivatives in the field of customer service, the exchange of know-how and systems, and risk management.

D.E. Shaw Financial Products was a prime player on the world market in the sale, structuring, syndication and trading of equity-linked instruments and equity derivatives, and especially of convertible bonds. KBC Financial Products has offices in London, New York, Hong Kong and Tokyo.

KBC Securities

The activities of KBC Securities consist in share trading for own account, the execution of orders for KBC Bank's retail network, discount brokerage services for retail clients, full-service brokerage

Key figures, KBC Financial Products

Aggregated figures (in millions of EUR)	1999
KBC participation	100%
Total assets	1 741.5
Capital and reserves (after profit appropriation)	69.1
Profit for the financial year	-20.4
Number of staff	198

services for institutional investors, and investment banking services for companies and public authorities. In less than ten years' time, KBC Securities has grown to become the largest stockbroking company in Belgium, boasting a market share of more than 25% in terms of volume traded on the Brussels stock market. With a market share of 16%, KBC Securities is also one of the biggest players on the EASDAQ growth exchange and, via its subsidiary, KBC Securities (France), is also active on the French bourse. KBC Securities is aiming to achieve further international expansion.

In order to be able to support such strong growth in the future, the company's organizational structure was refined in 1999. Investment was made in particular in a team of professional share analysts, a team which is divided up along sector lines and spread equally between Brussels and Paris. Each sector is approached from a European perspective. In addition, the stock market activities were also stepped up considerably, thanks to direct links to various European bourses. Lastly, the new dealing room was taken into commission at the end of 1999, and is supported by the latest technologies, the objective being to expand the market activities even further.

KBC Securities has invested heavily in providing on-line services via the Internet to individual investors. The 'Bolero' web site launched by KBC Securities in 1999 offers clients the opportunity to place stock market orders, to consult and manage their own portfolio, to call up real-time rates and to keep abreast of the news. Stock market orders may also be transmitted via the 'KBC-Telecenter' call centre.

Within the Corporate Finance Division, the product and services offering was broadened substantially to cover all aspects of mergers and acquisitions, in order to provide one-stop shopping for clients seeking opportunities to achieve external growth with the help of KBC Securities.

Key figures, KBC Securities

Non-consolidated (in millions of EUR)	KBC Securities			KBC Securities (France)		
	1997	1998	1999	1997	1998	1999
KBC participation	100%	100%	100%	100%	100%	100%
Total assets	491.7	1 533.5	727.1	56.9	314.4	565.1
Capital and reserves (after profit appropriation)	24.9	45.3	92.2	7.9	9.2	13.4
Profit for the financial year	11.1	8.4	61.5	3.0	1.2	5.0
Return on equity	49.2%	24.0%	89.4%	37.3%	14.4%	44.8%
Number of staff	60	136	152	39	62	90

2.05 p.m. - KBC Lennik, Lennik

Personnel

Personnel

Personnel policy

KBC's most important capital is its 'human capital'. Consequently, a straightforward personnel policy, offering staff working terms and conditions that are at least comparable to those on the market, is of vital importance for KBC's success.

In 1999, all staff members of both KBC Bank and KBC Insurance were given a uniform set of terms and conditions of employment. A significant support role was also played by the Personnel Directorate in the integration of Head Office services, the appointment of persons to new positions and the handling of the entire process of staff transfers between the various establishments.

The successful introduction of the new terms and conditions was accompanied at KBC Bank by a number of other major initiatives during the year:

- a new, uniform performance assessment and evaluation system was put in place for office staff and middle and junior management;
- a generous and attractive supplementary insurance package and supplementary pension plan was worked out;
- uniform terms and conditions for bank and insurance products were introduced for personnel;
- the company transport plan was fleshed out with the setting-up of a car-pool database, subscribed to by more than 850 members of staff;
- an electronically accessible personnel guide was compiled, enabling staff - from their desks - to call up information about a whole range of personnel-related matters, such as policy, procedures, delegated authority, etc.

All KBC Insurance NV personnel were slotted into the new salary scales, and group assurance and guaranteed income insurance were standardized. A uniform system for personnel counselling and follow-up was also introduced and a new method for registering working hours was put into place, along with a new administrative system for staff costs.

Negotiations with the social partners

1999 saw the implementation of the Collective Labour Agreements (CLAs) that had been concluded with employee representatives after the completion of the merger.

The European Works Council, which previously functioned only at the former Kredietbank, was transformed into a body competent for the entire KBC Bank & Insurance Group within the European Economic Area.

Additionally, a company-wide agreement was concluded at KBC Bank regarding the post-merger workings of the bodies for employer/employee negotiations, in which the guidelines were set out for the further underpinning of the existing culture of social dialogue up to and beyond the May 2000 elections to these bodies. On 9 December 1999, various sector-specific CLAs were concluded within the Joint Committee for Banks. These agreements, the product of protracted and difficult negotiations, are to be worked out in greater detail in the near future.

Social bargaining to conclude a labour agreement for KBC Insurance NV and Fidea continued, but has yet to be finalized.

Training

KBC Bank

With a view to setting a clear and open training policy within the new merged bank, the training courses on offer and the relevant administration were integrated. Moreover, the decentralized training infrastructure was expanded, training for new branch and management staff was revamped, and attention was given to providing support for the merger of the branches.

The wide range of training facilities available at KBC give staff the opportunity to maximize their know-how and potential. In this way, they can enhance their employability, provided they take the appropriate initiatives to further their careers.

Training figures, KBC Bank	
Number of persons taking training courses	12 503
Average number of training days per member of staff	4.26
Cost of training, in millions of EUR	39.1
Cost of training, as a % of the total payroll	4.04%

KBC Insurance

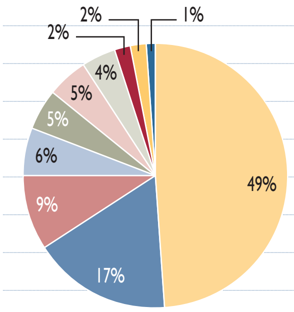
In 1999, the fiftieth course for agents was organized, a course which is constantly being adapted to suit the changing environment and changing needs. Last year, for instance, attention was devoted specifically to co-operation under the KBC bancassurance concept. Training sessions were organized around the introduction of new fire, motor and general liability insurance products and on the implementation of automated insurance applications in the bank branches. The requisite training was also given to agents and personnel when the IT infrastructure was renewed. Further, with a view to facilitating further penetration into the segment of local businesses, a select group of agents were provided with training support. Besides the in-house courses, recourse is being had increasingly to outside providers for specialist training. More and more, alternative training methods and techniques are now also being looked into, such as self-taught courses, video instruction, on-the-job training and workshops.

Staffing level

As at 31 December 1999, KBC Bank NV, KBC Insurance NV and the KBC Bank and Insurance Holding Company NV employed 17 816 full-time equivalents (FTEs), an increase of 5.0% on the previous year.

Number of staff	**31 December 1998**		**31 December 1999**		**Growth**	
	Number	FTE	Number	FTE	Number	FTE
KBC Bank NV	16 624	15 375	17 072	15 882	2.7%	3.3%
KBC Insurance NV	1 742	1 585	2 083	1 926	19.6%	21.5%
KBC Bank and Insurance Holding Company NV	0	0	8	8	-	-
Total, KBC Bank & Insurance	**18 366**	**16 960**	**19 163**	**17 816**	**4.3%**	**5.0%**

Personnel deployment, KBC Bank NV



- Retail
- Support
- IT Development and Operations
- Domestic Credit
- Payments
- Asset Management
- International network
- Domestic corporate services
- Treasury & Capital Markets
- Private Banking

KBC Bank NV

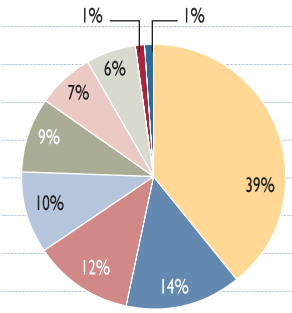
Despite the scarcity on the labour market of people with the sort of training required by KBC Bank, 1 437 new members of staff were recruited. With 989 persons leaving the bank, chiefly as a result of retirement, there was a net increase in the workforce of 2.7% or 448 persons, 188 with permanent contracts and 260 with temporary contracts. Staff were recruited mainly for Head Office, more particularly in the fields of Asset Management and IT, and chiefly at middle and junior management level, where there was a 21% increase on balance. Junior and middle management now account for 35% of the staff, as against less than 30% in 1998. The average age is 39.

Workforce characteristics, KBC Bank NV (breakdown by number of employees)

Senior management	Middle and junior management	White-collar staff	Blue-collar staff
169	5 959	10 557	387
Permanent	**Temporary**	**Active**	**Non-active**
16 223	849	16 234	838
Belgium	**Abroad**	**Men**	**Women**
16 364	708	9 529	7 543
100%	**≥ 80%**	**< 80%**	**TOTAL**
13 878	785	2 409	17 072

Approximately 59% of KBC Bank staff are employed for commercial activities, more particularly in the domestic retail network, for corporate services, private banking, in the foreign branches and representative offices, and for market activities. The remainder are responsible for the development of and administration for products and services, chiefly as regards lending, payments and investment, as well as for the development and operation of IT systems, and for general support services. These last include, among other things, risk management, accounting, staff services, the personnel department and facility management.

Personnel deployment, KBC Insurance NV



- Non-life
- IT Insurance and Organization
- Corporate Insurance and Central Claims Settlement
- Life
- Other support services
- Personnel and Facility Management
- Financial Group
- Audit, Control and Compliance
- Reinsurance and International depts.

KBC Insurance NV

Although the number of employees at KBC Insurance NV went up by 19.6% in 1999, this was largely counteracted by the drop in the number of staff employed at Fidea as a result of the merger-related centralization of joint services. On balance, the increase in personnel was limited to 4%, most of which was accounted for by the life business, owing to the success of unit-linked life assurance products.

More than 60% of KBC Insurance employees work in the non-life and life businesses. The rest of the workforce is responsible for IT, organization, the financial group, personnel, auditing, reinsurance, international development and general support services, such as the study and prevention departments and the ombudsman.

Workforce characteristics, KBC Insurance NV (breakdown by number of employees)

Senior management	Middle and junior management	White-collar staff	Blue-collar staff
80	501	1 424	78
Permanent	**Temporary**	**Active**	**Non-active**
1 937	146	1 989	94
Belgium	**Abroad**	**Men**	**Women**
2 081	2	971	1 112
100%	**≥ 80%**	**< 80%**	**TOTAL**
1 575	300	208	**2 083**

KBC Group

As at the end of 1999, the KBC Group as a whole (i.e. including the subsidiaries in which KBC has a majority participation) employed more than 27 000 people (FTEs). If the employees of subsidiaries acquired in 1999 are included in the number of employees as at 31 December 1998, then growth in 1999 would have come to 2.5%.

Number of staff (FTE)	31 December 1999	Growth 1998 → 1999
KBC Bank NV	**15 882**	**3.3%**
Principal majority shareholdings		
Antwerpse Diamantbank	169	2.2%
CBC Banque	1 335	8.9%
Centea	611	1.8%
Československá Obchodní Banka	4 710	-4.9%
Irish Intercontinental Bank	437	21.4%
KBC Bank Deutschland	119	-17.4%
KBC Finance Ireland	33	-5.7%
KBC Financial Products	198	7.6%
KBC Lease Group	264	6.5%
KBC Bank Nederland	302	3.8%
KBC Derivatives	17	37.5%
KBC Securities (including KBC Securities (France))	242	22.2%
Krefima	97	2.3%
KBC Insurance NV	**1 926**	**21.5%**
Principal majority shareholdings		
ADD	157	6.1%
Argosz	138	16.9%
Chmelařská	172	-
Fidea	363	-39.8%
Secura	93	9.4%
VITIS Life	27	58.8%
Total, KBC Group	**27 292**	**2.5%**

2.45 p.m.- KBC Head Office, Leuven

Information for shareholders and the general public

General public

Information concerning products, services and publications of the KBC Group can be obtained by ringing or faxing the KBC-Telecenter on weekdays between 7 a.m. and 10 p.m. and on Saturdays and bank holidays between 8 a.m. and 5 p.m.

Tel.: +32 (0)78 152 153 (Dutch)
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All information on the KBC Bank and Insurance Holding Company is also available on the Internet: **http://www.kbc.be.**

The annual report of the KBC Bank and Insurance Holding Company is published in Dutch, French, English and German and can be obtained via the KBC-Telecenter or by writing to:

KBC Bank and Insurance Holding Company NV
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The annual report is also available on the Internet at: http://www.kbc.be.

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Financial calendar

General Meeting of Shareholders	27 April 2000
Dividend payment	11 May 2000
Publication of interim results for 2000	7 September 2000
Publication of results for the 2000 financial year	first half of March 2001
General Meeting of Shareholders	26 April 2001

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Putting people first.