KBC Bank & Insurance Group
Annual Accounts and Additional Information - 1999

KBC
Banking & Insurance

Contents

The volume 'Report on Activities - 1999', together with this 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.

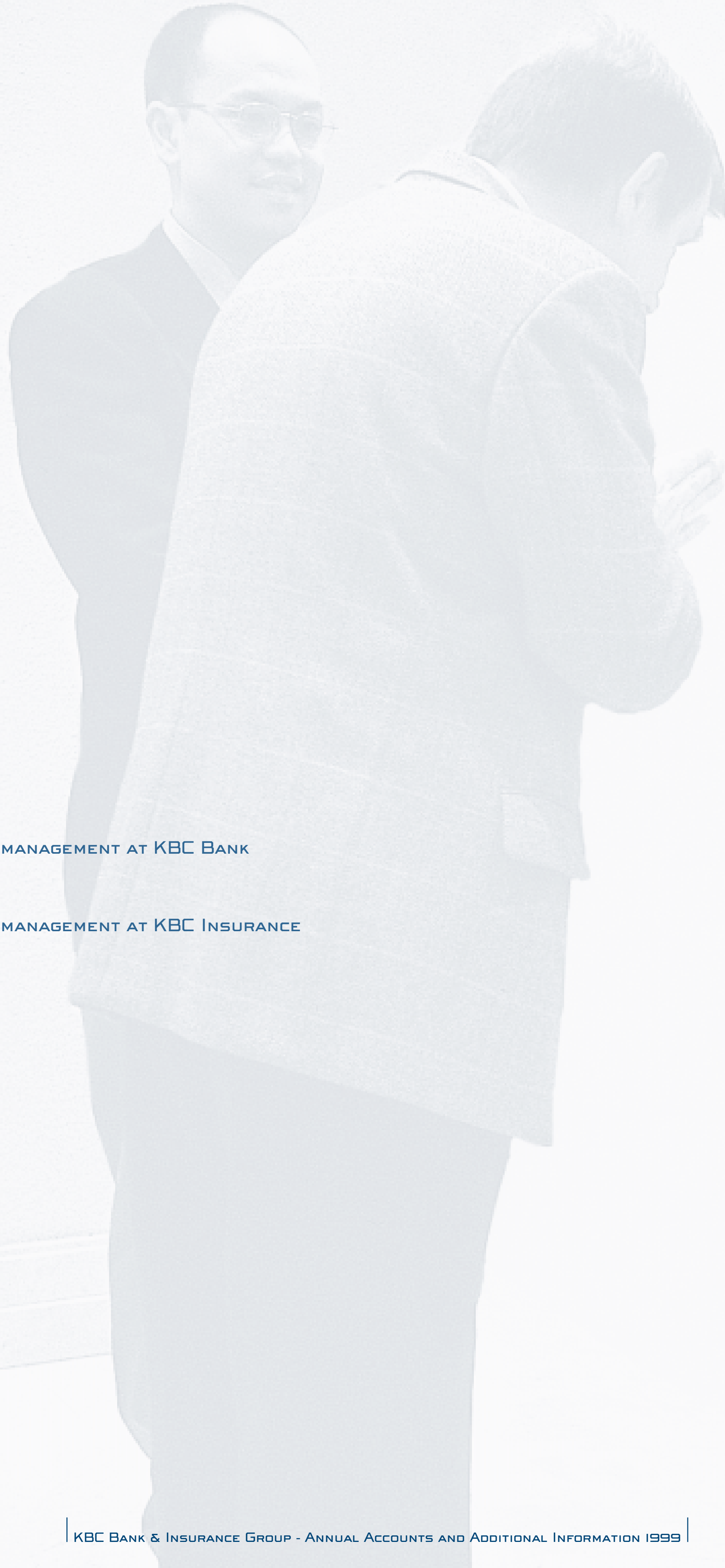
On 11 April 2000, the Belgian Banking and Finance Commission granted the KBC Bank and Insurance Holding Company NV authorization to use the present annual report as a reference document to solicit savings from the public under Title II of Royal Decree No. 185 of 9 July 1935, by means of the procedure 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

Annual Accounts and Additional Information - 1999



Risk management at KBC Bank

Risk management at KBC Insurance

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Risk management

Risk management

There are a number of typical risks associated with the business of banking and insurance. In banking, it is mainly a question of counterparty risk, country risk, various market risks and liquidity risk. In the insurance business, the primary risks are essentially investment risk and a variety of technical risks. Curtailing these risks as much as possible and keeping them manageable is one of the most crucial tasks of group management and fully warrants the direct involvement of the most senior management of KBC Bank and KBC Insurance in risk management activities.

Risk management at KBC Bank

Counterparty and country risk

Generally speaking, counterparty risk, or credit risk, is the risk that a debt will not be repaid due to the counterparty's lack of creditworthiness or willingness to pay.

Country risk is the risk of non-payment occasioned not by the counterparty's lack of creditworthiness or willingness to pay, but rather by events or actions taken by the political or monetary authorities of a particular country.

Monitoring counterparty risk

- **Domestic network**
  As long as repayment difficulties are linked to a short-lived liquidity crunch, the relationship with the customer remains the top priority during the initial monitoring stage, which is carried out in the network. Only during the second monitoring stage, if there is a structural worsening of the credit risk, is the management of the lending relationship supported, directed and, in the event of a major risk, taken over by the Special Credit Management Division with a view to controlling and reducing the relevant risk and safeguarding the interests of the bank to the greatest extent possible.

  In 1999, the bank's risk-monitoring methodology was revised. The main principles on which it will rest are the early detection of heightened risk by means of a high-performance system of flashing lights and the adequate follow-up of long-lasting overdrafts and arrears. Moreover, the frequency with which credit dossiers will be reviewed now hinges on the risk category of the credits concerned. These new procedures have been tested and will be implemented in the domestic network in the year 2000.

- **International network**
  Just as is the case in Belgium, responsibility for first-line risk monitoring lies with the network itself. Any material change in a dossier which might have an impact on the borrower's repayment capacity must lead to precautionary measures being taken straightaway and be reported to a credit committee at Head Office.

  Over and above the continuous monitoring conducted throughout the year, all actual or even potential problem cases are also subject to a collective review every six months. At this time, the requisite provisioning is also determined on a case-by-case basis. As in Belgium, all dossiers are subject to review at regular intervals, as well. The frequency of these reviews depends on the risk category of the credit. Credit classified as medium- to high-risk is reviewed at least once a year, while low-risk loans are reviewed at least once every two years.

Quality of the loan portfolio

The bank adheres to a prudent valuation policy as far as its counterparty risks are concerned. For all risks in respect of counterparties with (imminent) payment problems, the requisite write-downs or provisions are posted in good time, based on the estimated amount of loss and taking security, among other things, into account. As a precautionary measure, specific write-downs are taken not only for non-performing loans, but also for borrowers experiencing certain difficulties though still managing to meet their obligations (performing loans). For special events that might have a negative impact in the (near) future on the quality of loans, such as the dioxin crisis, additional (general) provisions are posted. For foreign credit risks, moreover, a general provision is set aside for (unexpected) loan losses, as well as a provision for country risks.

As can be seen from the table, the quality of the loan portfolio is still good. Only 2.1% of the loan portfolio is non-performing, 64.0% of which is covered by specific write-downs (*). If the investment portfolio is taken into account, only 1.3% of the overall portfolio would qualify as 'non-performing', with 63.8% being covered by specific write-downs (*). The portion of non-performing loans not covered by specific provisions can be recovered in full, account taken of the security provided.

Non-performing portfolio and cover via write-downs (1)

	31 Dec. 1998	31 Dec. 1999 exc. ČSOB	31 Dec. 1999 incl. ČSOB (2)
Loans			
Non-performing as a % of the overall portfolio			
• in Belgium	2.0%	2.1%	2.1%
• abroad	1.3%	1.9%	2.1%
Total, bank	**1.8%**	**2.0%**	**2.1%**
Cover via write-downs for non-performing			
• in Belgium	69.3%	64.5%	64.5%
• abroad	60.9%	62.9%	63.2%
Total, bank	**67.2%**	**64.0%**	**64.0%**
Loans and investment portfolio			
Non-performing as a % of the overall portfolio			
• in Belgium	1.2%	1.4%	1.4%
• abroad	0.9%	1.0%	1.2%
Total, bank	**1.1%**	**1.2%**	**1.3%**
Cover via write-downs for non-performing			
• in Belgium	69.3%	64.5%	64.5%
• abroad	60.5%	62.1%	62.5%
Total, bank	**67.1%**	**63.7%**	**63.8%**

(1) Non-performing: in Belgium - bankruptcies and loans that have been called in; abroad - loans or securities in the investment portfolio for which principal repayments or interest payments are more than 90 days in arrears. Cover amounts take contingent tax savings into account.
(2) Excluding ČSOB's 'legacy portfolio', which is fully covered by security and loan-loss provisions.

As to the other credit-related provisions, a special provision was set aside in the first half of the year to cope with the consequences of the dioxin crisis and, as at the end of last year, it covered approximately 48 million euros (*). In addition, the general provision for 'emerging markets' was raised substantially, bringing the overall provision for country risks to 215 million euros, compared with 138 million euros at the close of 1998 (*).

(*) Including contingent tax savings (calculated on a case-by-case basis).

Internal credit risk models

In response to the unmistakable trend manifesting itself in international banking circles to adopt internal credit risk models, including internal rating models (a trend subsequently supported by the proposals made by the Basle Committee), the Risk Management Division launched a project aimed at achieving quantitative credit risk management.

The bank's objective is to calculate credit risk on the basis of various components, such as the probability of the counterparty defaulting, the outstanding amount of the credit and the post-bankruptcy value of any security. Since the latter half of 1998, a project group staffed by personnel from the domestic and international credit divisions, as well as the Risk Management Division have been building a suitable framework, focusing on setting up a number of rating models. Based on a number of quantitative and qualitative factors, these models are designed to make statistically objective estimates of counterparties' creditworthiness.

By using a model such as this which evaluates the various elements comprising credit risk, an estimate can be made of the expected loss, which is considered as an ordinary operating expense and is thus logically reflected in the price of the credit and leads to the posting of loan-loss provisions. The uncertainty regarding the expected loss (the unexpected loss) provides an estimate of the amount of economic capital required. For this capital, too, compensation has to be sought. This approach is applicable to both individual transactions and to (part of) the loan portfolio. Ultimately, it will lead to a Credit-Value-at-Risk being determined, similar to the well-known method applied for market risks.

Thanks to the efforts already made, some of the segments of the bank's loan portfolio have already been covered via the above technique of rating and estimating the expected loss. During the course of 2000, efforts will continue, the objective being to achieve an optimal balance between setting up internal rating models, using ratings awarded by recognized rating agencies and integrating the credit information or models provided by various other bodies (consultants, software houses, credit information-providers, etc.). The bank has also completed a similar project for assessing country risk to supplement its traditional approach (see below) in this regard.

Country risk

Country risk is curtailed by setting limits per country which are divided further into sublimits for transfer risks, performance risks and IFC 'B' loans. It is calculated according to a conservative method (see boxed text) for each country. Consequently, country exposure includes risks which are actually rather limited, such as those associated with loans and advances to governments, to credit institutions, performance risks and IFC 'B' loans. Before any new transactions are entered into, availability under the country limits, and where applicable the relevant sublimits, has to be checked. Any overruns must be cleared in advance with the bank officers who have the requisite decision authority.

Country exposure calculations at KBC Bank:

The following risks (*) are included in the basis of calculation:

- Credit, such as payments credit, commitment credit and credit derivatives, including the IFC 'B' loans (the portion of loans granted by World Bank Group affiliates and placed with commercial banks), performance risks (loans repaid not by the borrower, but by the buyer of the borrower's goods/services who is based in an OECD country; exposure to the borrower lies in the possibility that this last will be unable to deliver on account of the situation in his country) and medium- to long-term export finance (such as buyer's credit and supplier's credit).

- Bonds and shares held in the bank's investment portfolio.

- Placements and other professional transactions, such as forex transactions, swaps, options, etc.

- Short-term commercial transactions, such as documentary credits, pre-export financing and post-import financing.

Apart from the 'other professional transactions' item, all transactions are included at a rate of 100%. The other professional transactions are calculated according to the relevant BIS regulations (mark-to-market + add-ons). In principle, individual transactions are imputed to the country limits according to the following rules:

- Fully fledged guarantees transfer the country risk to the guarantor's country.

- If a transaction is carried out with the office/branch of a company which has its head office in another country, the transaction is imputed to the country with the lower rating, whether this is the country the office/branch is in or the country the head office is in.

- Exposure in the counterparty's national currency and risks in respect of countries in the euro zone are not included.

In 1999, country exposure to Asia was reduced by more than 25% to 4.6 billion euros. Compared with the situation in mid-1997, just before the crisis broke out, country risk in respect of Asia has been cut by almost 60%. By including ČSOB in the scope of consolidation, the country risk in respect of Central and Eastern Europe tripled to 2.7 billion euros.

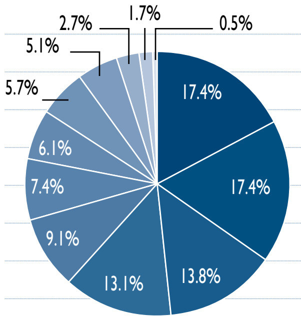
The country risks KBC Bank is exposed to in respect of the so-called 'problem countries' (a number of countries adversely affected in recent years by the anxiety prevailing on the financial markets, though most have since started down the road to recovery: South Korea, Thailand, Indonesia, Malaysia, Brazil, Argentina, Venezuela and Russia), amounted at the end of 1999 to 1.1 billion euros, 7% less than at the close of 1998. 25% of the country risk in respect of these problem countries is covered by provisions, including the general provision for country risks. If the activities subject to a limited country risk (performance risks, IFC 'B' loans and short-term commercial credit) are not taken into account, the cover percentage would be 39%.

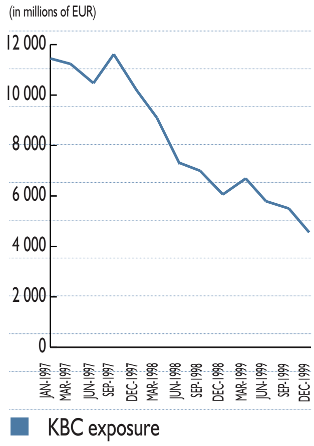
Market risk and liquidity risk

Market risks arise when adverse changes in the value of positions held by the bank on interest rate, currency, stock and derivatives markets might result in a loss. These positions may stem from transactions with customers or from those carried out on the bank's own behalf.

(*) Scope of consolidation: KBC, CBC Banque, KBC Bank Deutschland, KBC Bank Nederland, Irish Intercontinental Bank, KBC Finance Ireland, ČSOB.

Country risk in respect of Asia : trend and breakdown





Total country risk - KBC Bank, 31 Dec.

(in millions of EUR)	Total country risk		IFC 'B' loans	Performance risk
	1998	1999		
Western Europe exc. euro zone	12 033	10 889	19	5
Asia	6 086	4 557	64	15
North America	3 547	3 579	0	1
Latin America	1 108	1 081	51	160
Oceania	912	1 001	0	10
Central and Eastern Europe	873	2 685	38	167
Africa	469	348	14	131
Middle East	436	747	13	216
International institutions	330	289	0	0
Total country risk	**25 793**	**25 175**	**198**	**705**

(in millions of EUR)	Transfer risk						
	Breakdown by remaining maturity		Breakdown by type of transaction				
	≤12M	>12M	Loans	Bonds & shares	Profes-sional	MLT export finance	ST com-mercial
Western Europe exc. euro zone	5 592	5 274	4 656	1 011	5 156	27	16
Asia	2 749	1 729	2 740	513	998	11	216
North America	1 233	2 345	1 729	598	1 244	0	6
Latin America	467	402	622	30	2	2	214
Oceania	386	606	412	376	203	0	1
Central and Eastern Europe	1 287	1 194	2 097	167	129	22	66
Africa	132	71	160	0	0	14	19
Middle East	217	301	219	0	26	6	267
International institutions	212	77	49	123	65	0	51
Total country risk	**12 274**	**11 998**	**12 685**	**2 818**	**7 832**	**81**	**855**

Liquidity risk refers to the difficulties that may arise in funding the bank's ordinary business activities at acceptable terms.

Risk awareness and organization of risk management activities

The importance attached to managing market risks is also evidenced by the involvement of the most senior bank management. Via the annual limit reviews and additional presentations, the **Board of Directors** is briefed on the risk profile and the limits systems for market risks. The general manager of the Risk Management Division also reports on a quarterly basis to the **Audit Committee**, a sub-committee of the Board of Directors, informing them of how the market risks to which the bank is exposed are developing, of changes to limits systems or recommendations issued by official and industry bodies, etc. He also addresses special issues on which the Audit Committee requires more detailed explanation.

The **Executive Committee** of the bank is closely involved in risk management. Two of its members sit on the Investment Committee and the Market Committee, which supervise the various market risks the bank is exposed to. All of the members of the Executive Committee are also kept informed via the summary reports and discussion papers presented to these committees, as well as via the minutes of their meetings. In this way, the bank's risk profile is discussed on a weekly basis by the Executive Committee.

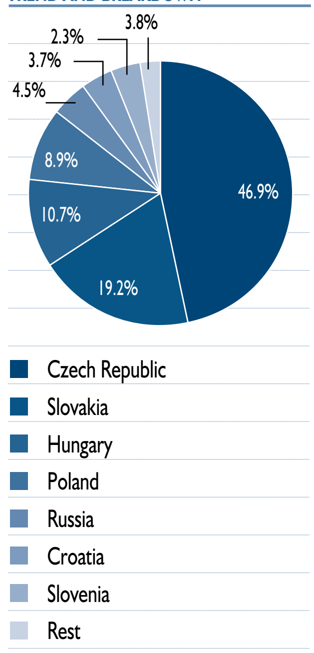
Country risks and loan-loss provisions for problem countries (situation as at 31 Dec.)

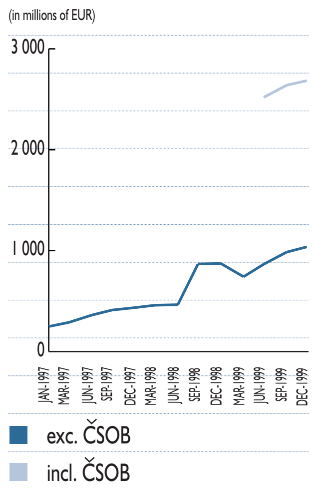
(in millions of EUR)	Total country risk 1998	Total country risk 1999	Cover (1)
South Korea	307	277	2
Thailand	261	234	45
Indonesia	113	76	65
Malaysia	82	124	2
Brazil	195	139	11
Argentina	166	145	4
Venezuela	26	30	0
Russia	81	122	28
General provision for 'emerging markets'	-	-	132
Total	**1 230**	**1 146**	**289**

(1) The total amount of the specific write-downs and provisions for counterparties in the countries concerned, the country-risk provisions set aside specifically for the countries concerned and the general (i.e. not allocated to specific countries) provision for 'emerging markets', account taken in each case of contingent tax savings.

(in millions of EUR)	Breakdown of country risk by counterparty			Breakdown of country risk by type of transaction						
	Government	Banks	Companies	IFC 'B' loans	Performance risk	Loans	Bonds & shares	Professional	MLT export finance	ST commercial
South Korea	49	147	82	0	0	160	19	54	0	43
Thailand	52	3	180	19	0	210	3	0	1	2
Indonesia	0	6	70	3	0	72	0	0	0	1
Malaysia	16	20	88	0	0	71	51	0	0	2
Brazil	1	67	71	7	31	40	1	0	0	60
Argentina	0	84	61	19	35	18	1	0	0	72
Venezuela	0	0	30	6	0	24	0	0	0	0
Russia	0	35	86	0	100	18	0	0	1	2
Total	**117**	**362**	**667**	**54**	**166**	**614**	**75**	**54**	**2**	**182**

Country risk in respect of Central and Eastern Europe: trend and breakdown





The **Market Committee** and the **Investment Committee** continue actively to perform their supervisory task. The remit of the Market Committee is to oversee the different risks encountered in the dealing rooms of the bank and its subsidiaries, while the Investment Committee is responsible for monitoring and managing the structural interest rate risks and both the bank's bond and equity portfolios.

The independent **Risk Management Division**, which reports directly to the president of the bank, has a crucial role to play in managing market risks. No changes were made to its organizational structure during the course of 1999. The investments made by the bank in sound risk management and the efforts put in by the Risk Management Division were kept up throughout the year. At the start of 2000, the Executive Committee approved an overall risk management framework, with a view to having the various members of the KBC Bank Group adopt a uniform approach. Indeed, the Group underwent significant expansion recently with the integration of ČSOB (Czech Republic), K&H Bank (Hungary), Kredyt Bank (Poland) and KBC Financial Products (US, UK, Hong Kong and Japan).

Asset & Liability Management

At the bank, Asset & Liability Management, or 'ALM' primarily entails managing the structural interest rate risk inherent in the traditional banking activities in euros, such as lending and deposit-taking. The bank is also exposed to interest rate and equity risk in managing its bond and equity investment portfolios.

The euro-denominated ALM activities of the KBC Bank Group are managed via a system of benchmarking. This means that a benchmark maturity and a core amount are fixed for each of the undated products (demand and savings accounts, capital and reserves), creating a point of reference for consistent internal pricing and risk measurement. By breaking the overall book down into component books, a detailed analysis can also be made for commercial and interest rate policy-making purposes. The subsidiaries, CBC Banque and Centea, have now been incorporated into this system, as well. In order to monitor its vulnerability, the bank resorts to such techniques as Basis-Point-Value, Value-at-Risk, gap analysis, the duration approach and scenario analysis. In managing its positions, the bank focuses on the aspect of revenue.

During the course of 1999, the Investment Committee, which is responsible for managing the ALM interest rate risk, concentrated primarily on setting interest rate policy. Indeed, the year was marked by a sharp rise in interest rates, which called for particularly alert management. The bank consequently drastically reduced its risk profile, especially from the second quarter of the year, by hedging a number of long-term commitments. Subsequently, the bond portfolio was built back up again. On account of the shift in the yield curve which had occurred in the meantime, this enabled the bank to bring its interest income back up to the same level as at the start of the year, while maintaining a substantially lower risk profile. Given the situation as at the end of 1999, a parallel 1% increase across the entire yield curve would, over the coming year, adversely affect the bank's interest income by some 24 million euros (69 million euros as at the end of 1998).

The policy adhered to for the equity investment portfolio was fundamentally altered in 1999. Consequent on a number of stock market transactions (involving Tractebel, and other shares), as well as the sale of participating interests which were deemed less important strategically and the spreading of investments across European sectors, the equity portfolio was scaled down and given a whole new orientation, entailing the realization of substantial gains. The policy objectives set have now, for the most part, been achieved.

Dealing room activities

The KBC Bank Group has a number of dealing rooms, spread across three geographical regions, namely Europe, the United States and the Far East. These dealing rooms engage exclusively in managing interest rate and exchange risks in a broad range of currencies. Through its specialist subsidiaries, KBC Securities, KBC Derivatives and KBC Financial Products, the bank group also engages in equity and equity-derivatives trading. The bank is not active on commodity markets and the exchange risks it runs are limited. Unlike the activities pursued on the interest rate and currency markets, the profile of its equity-trading subsidiaries is characterized by considerable option-related risks.

To measure and monitor interest rate and exchange risks, the bank currently mainly uses the Value-at-Risk (VAR) method. This method is designed to gauge the potential loss the bank may incur during a specific holding period, given a certain confidence interval and within the constraints posed by the assumptions made with regard to market behaviour. In this regard, the bank uses the BIS standards (10-day holding period and 99% one-sided confidence interval, historical data going back at least 250 days). The interest rate VAR system is supplemented, however, by such other instruments as gap analysis, Basis-Point-Value, concentration limits, maturity restrictions, stop-loss limits, research into more extreme scenarios, etc. As far as exchange risks are concerned, the FX-VAR system is supplemented primarily by concentration limits.

Partly as a result of the volatility prevailing on the markets in the latter half of 1998 and the sharp rise in interest rates in 1999, risk management has been characterized by the further refinement of the limits hierarchy for the dealing rooms, the imposition of additional limits and the reduction of others. Via an intranet module, the reporting on and monitoring of sensitivity yardsticks and limit utilization was fundamentally improved upon. This module has also allowed the bank to achieve considerable savings as far as regulatory capital is concerned, thanks to its use of the basic building blocks used in the VAR method.

Change in the Basis-Point-Value of the bond portfolio (with a shift in the yield curve of ten basis points) and the Value-at-Risk of the discretionary equity 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
1st quarter 1999	54.1	42.4
2nd quarter 1999	37.4	38.9
3rd quarter 1999	28.4	28.4
4th quarter 1999	30.0	16.9
End of 1999	28.0	8.5
Maximum	57.5	47.2
Minimum	19.4	8.5

With a view to improving its risk management even further, the bank has launched a number of software projects. They should result in the compilation of a comprehensive database of market data, the setting up of the relevant computational modules and the implementation of sophisticated analytical software. Many of the projects should already bear fruit in the year 2000. Ultimately, the goal is to set up an internal model that will be recognized by the supervisory body.

For the non-linear aspects of option-linked products, the bank uses a method which entails estimating the potential loss by means of a scenario analysis that covers a broad range of price and volatility shocks, whereby the most negative scenario is taken into consideration. The positions are also tracked on the basis of one-dimensional risk benchmarks (the so-called 'Greeks') in order to measure risks inherent in such developments as price changes, volatility shocks and the passing of time.

The options activities on currency and interest rate markets are limited. On the other hand, trading in equity options and equity derivatives has increased substantially, especially since KBC Financial Products joined the Group. Moreover, since 1 January 2000, the bank has acquired full control of KBC Derivatives. To counter the shift in its risk profile, the bank has invested heavily in know-how, employed additional personnel for monitoring activities and ensured sustained software support.

Liquidity risk

For its activities on its home market, KBC Bank has access to an ample pool of resources. It makes conservative assumptions in estimating core amounts for undated products under its benchmarking system. A considerable percentage (20 to 30%) of the available funds are invested on the short term in order to be able to cope with any sudden fund withdrawals made by the clientele. In this way, the bank's liquidity is safeguarded.

Internationally, thanks to its sound reputation and the widespread name recognition it enjoys, the bank has easy access to the capital markets via various programmes in certificates of deposit, subordinated certificates and Euro Medium-Term Notes. All this gives it a stable and broad base of customer deposits that spans a broad range of maturities, currencies, target groups, countries, instruments and intermediary channels. Besides the bank's programmes, mention should also be made of the commercial paper and Euro Medium-Term-Note programmes of the holding company, which also contribute indirectly to assuring the bank's liquidity.

As far as the assets side of the balance sheet is concerned, the bank aims to achieve a prudent spread of its investment portfolio across a range of instruments. Over the past few years, substantial amounts have also been actively invested in negotiable securities, as opposed to direct lending activities, which has likewise served to enhance liquidity. Through its role as market maker on the repo market, as well, the bank has been able to tap a major source of liquidity.

Risk indicators for dealing room activities

(in millions of EUR)	Value-at-Risk		Scenario analysis	
	Interest rate VAR	FX VAR	KBC Derivatives	KBC Securities
End of 1998	23.0	1.1	7.1	5.1
1st quarter 1999	30.0	1.8	8.7	4.2
2nd quarter 1999	28.2	2.1	0.7	4.6
3rd quarter 1999	22.1	1.9	0.2	4.8
4th quarter 1999	19.4	1.4	0.0	7.7
End of 1999	21.0	2.1	0.0	7.1
Maximum	40.2	7.2	14.2	9.0
Minimum	13.7	0.5	0.0	3.7

The bank also actively supervises the liquidity guarantees it provides third parties, which are covered by the requisite stand-by facilities. Protection against the possible illiquidity of the markets is obtained by imposing concentration limits per currency and by carefully monitoring the assumptions made regarding the holding periods.

Derivatives

See Note 36.

Risk management at KBC Insurance

KBC Insurance has assembled a specialist team - the Actuarial and Risk Management Department - to monitor and set policy to control risks. It does so in consultation with the internal audit department, officers responsible for day-to-day management, the auditors and the external supervisory authorities.

Investment risks

These include counterparty risk, liquidity risk and the market risks (exchange risk, for example) associated with the investment activities inherent in the business of insurance.

Considering that the financial performance of insurance companies is an important factor contributing to their results, integrated financial risk policy and management have become a key strategic competence. For this reason, KBC Insurance, working closely together with risk experts and asset managers on the banking side, draws up an integrated policy and management plan for handling financial risks.

Asset & Liability Management

The ALM Committee is responsible for the continuous monitoring of balance sheet risks and for advising the Executive Committee on the drafting of overall investment strategy.

The modelling of the insurance business was accelerated and professional software implemented to make it possible to monitor both the changes in the embedded value of the life business and the relationship between the changes in value and investment strategy, as well as the relevant risks. Through consultation with KBC Asset Management, strategic investment guidelines were also drawn up that - together with policy guidelines regarding borrower, exchange, mismatch and liquidity risks - were translated into investment management mandates.

The Investment Committee, chaired by a member of the Executive Committee and comprising a strong contingent from KBC Asset Management, sets out the investment strategy in more detail and supervises compliance with the guidelines. It goes without saying that all requirements issued by the supervisory bodies are followed up and complied with.

Borrower risk, exchange risk and liquidity risk

It is a house rule that all bonds invested in must have at least an 'AA' rating. Only in exceptional circumstances and with the approval of the Investment Committee can this rule be derogated from.

KBC Insurance is not exposed to any significant exchange risk. All of its commitments are fully hedged and the investment portfolio that is not subject to investment requirements is, for the most part, invested in EMU currencies.

KBC Insurance aims to achieve a high degree of liquidity in its investment portfolio. As a result, only liquid bonds that can be negotiated within two weeks are kept.

The provision for financial risks

In order to cope with the risks attendant on holding positions in foreign currency, in securities or in other financial instruments, KBC Insurance has consistently set aside a fund for financial risks from the 1999 financial year. This fund will be topped up each year until a certain required amount has been reached. This will vary, depending on the financial risk position and the degree of exposure set by the Board of Directors. For the most part, it will take the form of a capital requirement for the above-mentioned exposure.

Underwriting risks

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

Tariffication and acceptance risk

The acceptance and tariffication policy is based on the company's own technical analyses and market data. This policy entails determining what the target group is, what the acceptable risks are and what the price is at which the company is prepared to accept them. In order to curtail the exposure arrived at by this method, a policy is also drawn up for adequate co-insurance and reinsurance.

One of the prerequisites for assessing a specific risk correctly and setting an appropriate price, is to have access to all the relevant information, and this is where the agent and the bank branch have an important role to play, since they are closest to the prospective policyholder. To support the acceptance and pricing process of its intermediaries, KBC Insurance also makes available to them a whole array of such instruments as product guides, publications and a continuous training programme.

For a number of **standard risks**, sales staff use an on-line acceptance system that checks whether the proposed risk meets the acceptance criteria and, if so, allows the policy to be signed right away. If the prospective policyholder does not meet the criteria, automatic acceptance will be refused, and the data will be sent to the policy departments of KBC Insurance for appropriate acceptance and pricing. **Non-standard risks** must also be processed via the policy departments of KBC Insurance for acceptance. Subsequent management is carried out by decentralized provincial offices for private persons and small businesses and by specialized departments at Head Office where large companies and specific risks are concerned. Lastly, KBC Insurance also has a mobile team of specialists that provide support to the network for sales of insurance and facilitate the acceptance and tariffication process.

Absolutely essential, over and above sound acceptance practices, is the constant monitoring of the actuarial return on the insurance portfolio. For this purpose, KBC Insurance uses a technical model to evaluate the profitability of non-life insurance lines on an annual basis and, by means of portfolio monitoring, identifies the insured parties who year after year have recourse to insurance and systematically deviate from the average loss-probability figure. By means of an analysis per point of sale, KBC Insurance also seeks out points of sale whose actuarial result can be improved upon. In addition, every product officer has to keep track of the profitability of the products for which he or she is responsible. To this end, recourse is had to information stored in a number of data warehouses and statistical research techniques are used. Depending on the findings, the product officer can make suggestions to change the price, policy conditions or acceptance guidelines.

To check whether KBC Insurance is adhering to a responsible acceptance and tariffication policy, the certifying actuary will use technical analyses and models to independently determine whether the company is maintaining a durable and healthy technical balance. In addition, the Audit, Control and Compliance Division ensures that acceptance and pricing meet all the relevant guidelines and requirements.

Adequacy of technical provisions

- **Non-life business**
  To determine how extensive the technical provisions should be, systematic and individualized loss assessment is carried out on a case-by-case basis. Specialist loss adjusters for each class of non-life insurance, assisted by technical, legal and medical advisers, ensure that these assessments are constantly adjusted to take account of inflation.

- **Life business**
  For years now, a policy has been conducted that takes into account the possible negative consequences of a drop in interest rates. By this means, substantial supplementary provisions were already set aside in the past through systematic provisioning based on an actuarial rate of interest of 4% instead of 4.75% for those product categories most vulnerable to mismatch risks.

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

- **Reinsurance provisions**
  Provisions for outstanding accepted reinsurance contracts are estimated on a case-by-case basis. Provisions for claims for the current year are estimated on the basis of the expected technical results. The provisions for claims of earlier years are based on the estimates of the companies having the risk reinsured. For all these estimates, KBC Insurance takes a conservative approach and explicitly takes account of extraordinary loss developments and changes in the interest rate.

Serious accidents and catastrophes

- **Reinsurance programme**
  The insurance portfolios are protected against the impact of serious claims by means of reinsurance. Reinsurance is taken out in close collaboration with Secura, the reinsurance subsidiary of KBC Insurance, which acts primarily as a consultant in this regard. The reinsurance programmes are divided up into three main groups: property insurance, accident insurance and life assurance. Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of major claims or loss events. Where capacity or the nature of the risk requires, the general or 'treaty' reinsurance programme is supplemented by facultative contracts, i.e. reinsurance contracts for individual risks.
  In 1993, what is now KBC Insurance NV set up a reinsurance company in Luxembourg called Lucare. This company reinsures mainly the catastrophe risks KBC Insurance is exposed to.

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

Claims control and anti-fraud measures

As far as claims control is concerned, KBC Insurance seeks to curtail the extent of the loss burden. To this end, the company has access to specific systems and specialist staff.

It uses loss adjusters, for instance, who have the requisite expertise to investigate and settle claims and also has recourse to external advisers in technical, legal and medical matters. The activities of these loss adjusters and external advisers are moreover monitored via a system the company developed in-house, which not only checks turnaround times and costs, but the quality of the work performed, as well. For claims-handling purposes, KBC Insurance also avails itself of the services of approved garages and repairmen.

All the internal claims departments and loss adjusters are provided with a list of ‘flashing lights’ for detecting possible cases of fraud. Any insurance dossiers turned up by means of these flashing lights are examined by specialists who may call on the Anti-Fraud Unit for assistance. This unit also conducts an active anti-fraud policy. Additionally, the company has introduced the requisite procedures for amounts paid out in the life business, in line with the requirements of anti-money-laundering legislation.

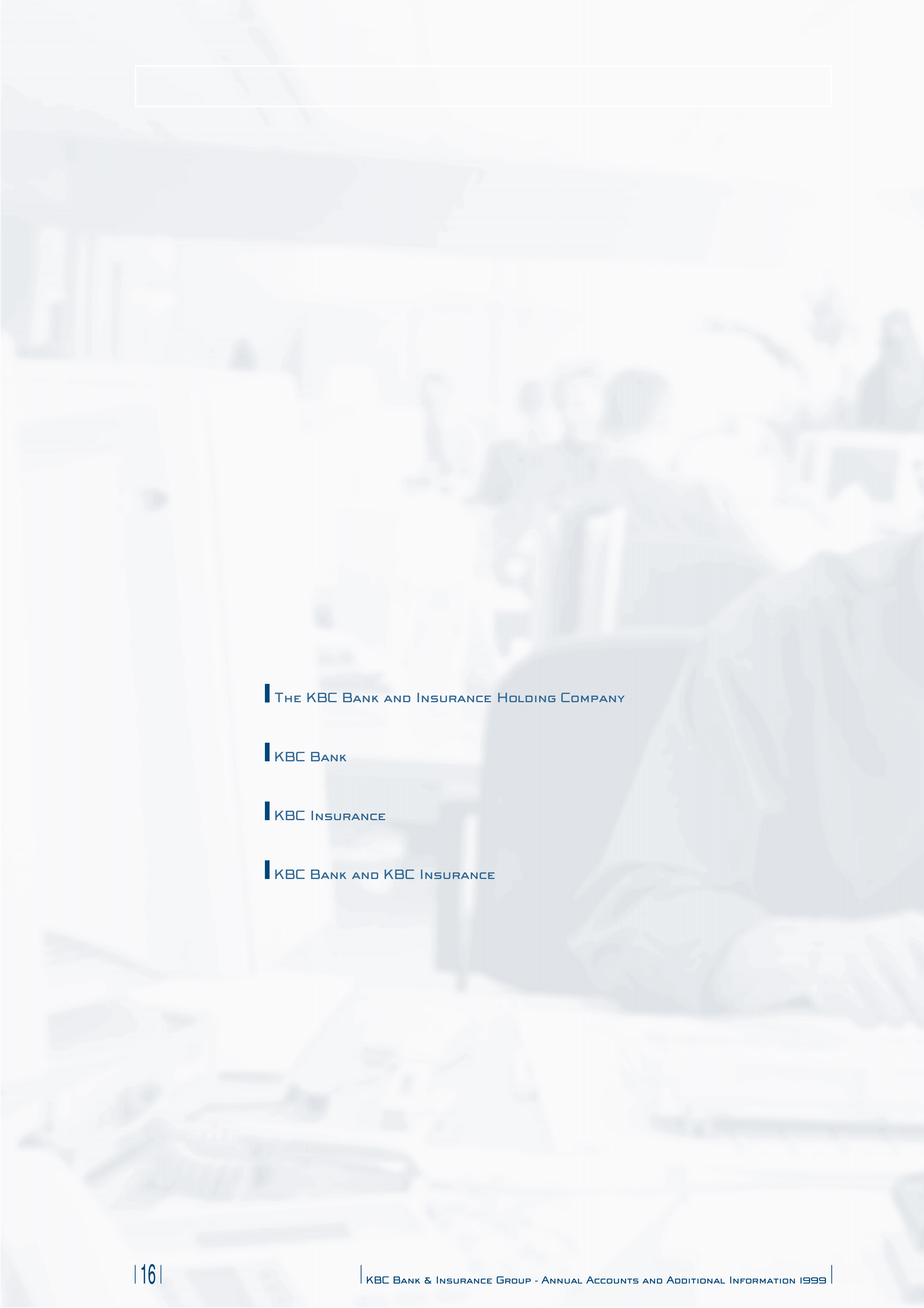
Lastly, it should be pointed out that there is a system for the constant random checking of claims files. These checks are used to direct and monitor claims handling. Depending on what they turn up, changes may be made to the claims-handling process or other corrective measures may be taken, such as introducing appropriate training programmes for in-house staff. The Audit, Control and Compliance Division supervises whether the random checking is carried out properly and whether claims are handled correctly.

Y2K

Thanks to their intensive preparations which got underway as far back as 1995, KBC Bank and KBC Insurance made the transition to the year 2000 without encountering any problems worthy of note, and the same held true for the subsidiaries in Belgium and abroad.

During the preliminary stages, any and all possible problems that might crop up were inventoried and assessed. All the programming was checked, changed where necessary and thoroughly tested once again. The computer hardware and built-in processors in all the facility management systems were also examined and changed or replaced whenever necessary. Contingency plans, too, were subjected to thorough screening. The intensive testing carried out during the transition weekend itself assured us that the first business day in the year 2000 would go off without a hitch.

It should also be mentioned that the upgrading of a portion of the computer hardware, the thorough testing of the software and the updating of the various contingency plans not only neutralized the millennium bug itself, but also placed the bank and the insurer in a better position to deal with any new challenges the future might bring.



The KBC Bank and Insurance Holding Company

KBC Bank

KBC Insurance

KBC Bank and KBC Insurance

3.35 p.m. - KBC Corporate Branch, Diegem

Group structure

Group structure

A financial holding company, the KBC Bank and Insurance Holding Company NV co-ordinates the activities of KBC Bank NV and KBC Insurance NV. Within this group structure, the various tasks and responsibilities have been divided up as set out below.

The KBC Bank and Insurance Holding Company

The KBC Bank and Insurance Holding Company is an active shareholder. This means that it is responsible for the general strategy of the Group, the allocation of capital, the profitability requirements, the Group's major strategic investments, the extent and management of risks in the broad sense, and general ALM policy. Furthermore, it supervises the coherence of the budgets and profit planning of the banking and insurance subsidiaries, besides being responsible for the audit function at the co-ordinating level.
The holding company also acts as the driving force in the integration of the banking and insurance subsidiaries. Apart from prompting the setting-up of a number of committees for consultation between the two subsidiaries, it intervenes specifically in respect of:

- appointments policy, whereby it formulates a unanimous opinion regarding the appointment of the directors and general managers of the two subsidiaries and regarding the composition of the various committees;
- remuneration policy, whereby it takes an active part in harmonizing the two subsidiaries' remuneration systems for their directors and general managers.

KBC Bank

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

- all bank-related matters, such as the lending function, the securities business, corporate and investment banking activities, and dealing room activities;
- the internal organization and supervision of these bank-related matters, including risk management, the audit and compliance function, information technology, control and accounting, human resources policy (with the exception of the above-mentioned role of the holding company as regards appointments and remuneration) and logistic support;
- the drafting and implementation of commercial policy within the strategic framework defined by the holding company.

KBC Insurance

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

- all insurance-related matters, particularly all those inherent in the underwriting policy, such as the pricing and acceptance of insurance, the claims-handling policy, the investment policy and the appropriation of the result with a view to enabling the insurance company to build up the capital required in business-economic terms;
- the internal organization and supervision of these insurance-related matters, including profitability management (among other things, the profitability of the insurance business and of insurance products), financial management (whereby account is taken of, among other things, the statutory investment requirements), protection of the rights of the insured and beneficiaries, the audit and compliance function, information technology, control and accounting, human resources policy (with the exception of the above-mentioned role of the holding company as regards appointments and remuneration) and logistic support;
- the drafting and implementation of commercial policy within the strategic framework defined by the holding company.

KBC Bank and KBC Insurance

KBC Bank and KBC Insurance are empowered to delegate specific responsibilities, such as those concerning distribution, asset management and logistics, to mixed committees on which representatives of the insurance company and banking subsidiary sit. However, the insurance company and the bank remain responsible for any such delegation.

4.10 p.m. - KBC Bank and KBC Insurance, Schepdaal

Corporate governance

Corporate governance

Management structure

The management structure of the KBC Bank and Insurance Holding Company is based on a distinction between:

- the determination of general strategy, the supervision of management, and the exercise of the specific powers laid down in company law and the Articles of Association, tasks that fall within the competence of the Board of Directors;
- the management of the holding company, a task conducted autonomously by the Executive Committee, which comprises the managing directors appointed 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.

Board of Directors

The Board of Directors of the KBC Bank and Insurance Holding Company consists of twenty-six members appointed by the General Meeting of Shareholders. In addition to the managing directors who together constitute the Executive Committee, representatives of the dominant shareholders and independent directors have a seat on this Board.

The composition of the Board of Directors and Executive Committee, the capacity of the directors as representatives of the dominant shareholders or as independent directors, the main function of each director and the date upon which their term of office comes to an end are indicated at the end of this section.

Capacity to act as an independent director is based on the relevant definition given by the Brussels Exchanges.

The Articles of Association stipulate that the term of office may not exceed six years and will expire after the annual general meeting. Directors leaving office are eligible for re-election by the general meeting.

Proposals to appoint non-executive directors have to be submitted to the Board of Directors by the Agenda Committee that acts in this matter as an appointments committee.

When appointing directors and renewing their terms of office, consideration is given to creating a balance between a knowledge of banking and insurance, the interests of the shareholders and external management expertise.

An age limit of 70 years is in force for non-executive directors and one of 65 years for managing directors.

No legal persons hold the office of director.

The Board of Directors has a greater number of members than recommended by the Brussels Exchanges and the Belgian Banking and Finance Commission as regards corporate governance, because the eleven members of the Executive Committee also have a seat on the Board and because, both in the above-mentioned agreements on the autonomy of the banking and insurance businesses and in the recommendations in respect of corporate governance, it is stipulated that the Board is required to have a majority of non-executive directors serving on it.

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

As at 31 December 1999, the members of the Board of Directors (non-executive directors and members of the Executive Committee) personally held 16 175 KBC Bank and Insurance Holding Company shares.

Activities of the Board of Directors

The Board of Directors met eleven times in 1999. These meetings were attended by virtually all Board members.

Besides establishing the profit plan for 1999 and following up the monthly results of KBC Bank, KBC Insurance and their respective subsidiaries, the Board of Directors focused primarily on the further implementation of the domestic merger, on the realization of the international strategy of KBC, with the acquisition of participations in ČSOB (Czech Republic), K&H Bank (Hungary), Kredyt Bank (Poland), D.E. Shaw Financial Products (US), Irish Intercontinental Bank (Ireland), Crédit Commercial de France (France) and, on the domestic market, the acquisition of the Antwerpse Diamantbank and KBC Derivatives.
In addition, the Board of Directors decided to undertake a number of capital market operations to strengthen the KBC Group's capital and reserves.

Pursuant to Article 16 of the Articles of Association, resolutions are passed on the basis of a simple majority of votes; in case of a tie-vote, the deciding vote is cast by the Chairman of the meeting. In practice, the Board acts collectively and resolutions are always made on the basis of consensus. Where the law allows, the resolutions of the Board may be passed by unanimous written agreement of the directors.

In principle, the Board of Directors meets ten times a year; additional meetings are held whenever the interest of the company demands.

In order to permit the Board of Directors to fulfil its supervisory task, the Executive Committee regularly reports to it on the trend of results at KBC Insurance and KBC Bank. The Board keeps track of these results and checks them against the profit plan it has approved. In addition, the Board keeps abreast of the general course of business at KBC Insurance and KBC Bank, as well as of all major events or projects that have taken place since the previous Board meeting.

The Board may also at any time request from the Executive Committee or the auditor special reports on all matters that could have a material impact on the company. The Board and its Chairman may require that all useful information or documents be submitted to it and may have any examinations carried out.

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

Directors may, at the company's expense, seek the advice of an independent expert, should a majority of non-executive directors concur with a reasoned request to that end.

Within the Board of Directors, a procedure has been established whereby all explanatory notes to the agenda points have to be circulated to Board members at least three days prior to the meeting (unless this is physically impossible), so that, if they so desire, they can gather additional information from the Chairman of the Board or from members of the Executive Committee prior to the Board meeting.

The Board of Directors elects a chairman from among the directors who are not members of the Executive Committee.

Since the KBC Bank and Insurance Holding Company NV is a financial holding company with a limited staff of around ten people and the corporate object of directly and indirectly holding and managing its participations in KBC Bank, KBC Insurance and their respective subsidiaries, the discussions in the Board of Directors concentrate by definition on following up the activities and results of these subsidiaries and participations (in addition to determining the general strategy of the KBC Group, supervising the Executive Committee and exercising the special powers set out in company law and the Articles of Association).

The Board of Directors monitors developments at the sub-subsidiaries within the context of the reports on the consolidated results as at 30 June and 31 December. Whenever major developments occur at these companies, the Board is informed thereof on an *ad hoc* basis. Risk management for the KBC Group occurs on a consolidated basis.

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

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

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

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

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

Pursuant to Article 37 of the Articles of Association, up to 5% of the dividend paid out may be allotted to the Board by way of profit share. Distribution of this profit share is on the basis of an arrangement established by the Board, the annual allocation being handled by the Remuneration Committee. The Chairman of the Board of Directors also receives a fixed monthly emolument.

The total amount of remuneration paid in 1999 to non-executive directors comes to 1 791 754 euros (gross, before tax).

Committees set up by the Board of Directors

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

- **Agenda Committee**
  The Agenda Committee, chaired by the Chairman of the Board, also consists of the President and Vice-President of the Executive Committee and four non-executive directors, and its remit is to prepare the agenda for the Board and the matters for deliberation by that body. The committee also acts as an appointments committee in that it formulates proposals regarding the appointment of directors.

- **Audit Committee**
  The Audit Committee consists of seven non-executive directors, two of whom are independent directors. The fact that these last do not constitute a majority, as recommended by the Brussels Exchanges is due to the desire to have the composition of this committee reflect that of the Board of Directors and largely correspond to that of the audit committees of KBC Insurance and KBC Bank.

  The Audit Committee assists the Board in the performance of its supervisory task. Its remit consists in ensuring compliance with legal and regulatory requirements, and with the policy guidelines and procedures approved by the Board of Directors, as well as in supervising risk control and the internal control of the holding company. To this end, the Audit Committee approves the annual audit plan of the statutory auditors and the internal auditor, and considers their reports. The Audit Committee also looks over the drafts of the annual accounts and of the twice-yearly press releases concerning the results, prior to their submission to the Board of Directors for approval.

It may also subject to scrutiny any matter that falls within its competence and to that end may require all relevant information to be submitted to it.

Furthermore, it may have recourse to the advice of external experts should its chairman submit a reasoned request to that end, which is subsequently approved by the Board of Directors.

The Audit Committee meets five times a year in the presence of the President of the Executive Committee, the internal auditors, the officers of the control and accounting divisions of KBC Bank and KBC Insurance, and the statutory auditors, and reports on the meetings to the Board.

- **Remuneration Committee**
  The Remuneration Committee consists of the Chairman of the Board of Directors and two representatives of the dominant shareholders. Within the authority delegated by the Board, it determines the remuneration of the members of the Executive Committee and prepares the decisions concerning the profit share set by the Articles of Association for the members of the Board.

  The frequency of meetings is determined on an *ad hoc* basis. The committee submits a report on its work annually to the Board.

Executive Committee

The Executive Committee is constituted by the Board of Directors.

The President and the members of the Executive Committee are appointed by the Board and, by virtue of their appointment, receive the office of managing director.

The Executive Committee comprises the members of the Executive Committees of KBC Bank and KBC Insurance. Currently, the Executive Committee comprises 11 members. Their names and the date on which their term of office comes to an end are indicated at the end of this section.

An age limit of 65 years is in force for the members of the Executive Committee.

The Executive Committee is charged with managing the KBC Bank and Insurance Holding Company in line with the general strategy set by the Board of Directors, as stated at the beginning of this section.

The Executive Committee acts collectively. It may divide its duties up amongst its members, but this does not detract from the collective responsibility. Resolutions are passed by consensus.

In principle, the Executive Committee meets once a week; additional meetings are held whenever the interest of the company demands.

The financial remuneration of the members of the Executive Committee, as well as the system of retirement and survivor's pensions, is determined by the Board of Directors, on the proposal of the Remuneration Committee.

Members of the Executive Committee are remunerated partly via a fixed monthly emolument and partly via a variable annual emolument determined on the basis of the profit of the company.

The emoluments they receive in respect of the offices they hold in other companies are set off against the above-mentioned remuneration.

The total amount of remuneration paid in 1999 to members of the Executive Committee comes to 5 242 531 euros (gross, before tax); 1 472 250 euros of this amount was paid via the variable emolument.

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

Policy in connection with profit allocation

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

Relations with the dominant shareholders

On 31 December 1999, Almanij NV (with registered office at Schoenmarkt 33, Antwerp) held a controlling participation in the KBC Bank and Insurance Holding Company NV of 68%.

As announced in last year's annual report, an agreement was concluded between a number of permanent shareholders of Almanij NV: between the co-operative CERA Holding, on the one hand, and a number of permanent shareholders of Almanij, on the other.

KBC is not aware of the existence of shareholder or management committees.

Commercial transactions between KBC and Almanij do not take place at the level of the KBC Bank and Insurance Holding Company, but at the level of the operating companies, principally KBC Bank, and take place on an 'at-arm's-length' basis. These transactions are audited by the management bodies of the operating companies concerned.

Appointments pursuant to the Articles of Association

The term of office of Mr. Herman Agneessens is due to expire at the annual general meeting in 2000.

The Board of Directors proposes that the general meeting re-appoint him for a further period of six years, pursuant to the Articles of Association.

Prospects for the KBC Bank and Insurance Holding Company

The Board of Directors is confident about the future of the KBC Bank and Insurance Holding Company. The positive effects of the merger, including a broadening of the customer base and a wider range of activities, underpin this confidence. In addition, the extension of the Group's activities into Central Europe strengthens the Group and enhances the possibilities for further expansion, certainly in the longer term. Consequently, the company's fundamental goals, viz. a return on equity of at least 15% and annual profit growth of not less than 10%, are certainly achievable.

The year 2000 will demand a good deal of hard work to integrate the branches and complete a single IT platform for all KBC customers. Nevertheless, the KBC Group, barring any unforeseen circumstances, has good reason to expect its earnings per share for 2000 to go up in line with its long-term objective, i.e. an increase of at least 10% per year.

Management of the KBC Bank and Insurance Holding Company NV

Board of Directors

Willy Breesch	Chairman of the Board of Directors, Independent Director
Remi Vermeiren	President of the Executive Committee
Jan Huyghebaert	Vice-Chairman of the Board of Directors, dominant-shareholder representative, (Chairman, Almanij NV)
Alfons Wouters	Vice-President of the Executive Committee
Herman Agneessens	Managing Director and Member of the Executive Committee
Rudy Broeckaert	Managing Director and Member of the Executive Committee
Jozef Cornu	Independent Director, (Managing Director, Alcatel NV)
Jos Daniëls	Independent Director, (Chairman of the Board of Directors, KBC Insurance NV)
Rik Donckels	Dominant-shareholder representative, (Member of the Executive Committee, CERA Holding CV)
Willy Duron	Managing Director and Member of the Executive Committee
Frans Florquin	Managing Director and Member of the Executive Committee
John Goossens	Dominant-shareholder representative, (Managing Director, Belgacom NV, public company)
Herwig Langohr	Independent Director, (Professor, INSEAD)
Thomas Leysen	Dominant-shareholder representative, (CEO, Union Minière NV)
Xavier Liénart	Dominant-shareholder representative, (Marketing Director, Information Group BVBA)
Ghunald Loyaerts	Managing Director and Member of the Executive Committee
Theo Peeters	Managing Director and Member of the Executive Committee
Luc Philips	Managing Director and Member of the Executive Committee
Theo Roussis	Dominant-shareholder representative, (Chairman, Ravago Plastics NV)
Clément Selleslagh	Managing Director and Member of the Executive Committee
Paul Tanghe	Dominant-shareholder representative, (Member of the Executive Committee, CERA Holding CV)
Patrick Vanden Avenne	Dominant-shareholder representative, (Managing Director, Vanden Avenne - Ooigem NV)
Jan Vanhevel	Managing Director and Member of the Executive Committee
Guido Van Roey	Dominant-shareholder representative, (Director, Groep Interbrew NV)
Ferdinand Verdonck	Dominant-shareholder representative, (Managing Director, Almanij NV)
Marc Wittemans	Dominant-shareholder representative, (Director, Maatschappij voor Roerend Bezit van de Belgische Boerenbond CV)

Secretary to the Board of Directors and the Executive Committee: Johan Deron

The terms of office of the members of the Board of Directors are due to expire as follows:

2000	Herman Agneessens
2001	John Goossens
	Herwig Langohr
	Remi Vermeiren
2002	Jozef Cornu
	Jan Huyghebaert
	Thomas Leysen
	Theo Roussis
2003	Rudy Broeckaert
	Jan Vanhevel
2004	Willy Breesch
	Jos Daniëls
	Rik Donckels
	Willy Duron
	Frans Florquin
	Xavier Liénart
	Ghunald Loyaerts
	Theo Peeters
	Clément Selleslagh
	Paul Tanghe
	Guido Van Roey
	Ferdinand Verdonck
	Patrick Vanden Avenne
	Marc Wittemans
	Alfons Wouters
2005	Luc Philips

Agenda Committee

Willy Breesch (Chairman), Jos Daniëls, Jan Huyghebaert, Paul Tanghe, Ferdinand Verdonck, Remi Vermeiren, Alfons Wouters

Executive Committee

Remi Vermeiren (President), Alfons Wouters (Vice-President), Herman Agneessens, Rudy Broeckaert, Willy Duron, Frans Florquin, Ghunald Loyaerts, Theo Peeters, Luc Philips, Clément Selleslagh, Jan Vanhevel

Audit Committee

Ferdinand Verdonck (Chairman), Willy Breesch, Jos Daniëls, Rik Donckels, Jan Huyghebaert, Theo Roussis, Paul Tanghe

Remuneration Committee

Willy Breesch (Chairman), Rik Donckels, Jan Huyghebaert

Auditors

PricewaterhouseCoopers Bedrijfsrevisoren BCV, represented by Felix Hendrickx
KPMG Bedrijfsrevisoren BCV, represented by Frans L. Theeuwes and Luc Van Couter

Management of KBC Bank NV

Board of Directors

Willy Breesch	Chairman of the Board of Directors
Remi Vermeiren	President of the Executive Committee
Jan Huyghebaert	Vice-Chairman of the Board of Directors

Herman Agneessens
Rudy Broeckaert
Rik Donckels
Frans Florquin
Ghunald Loyaerts
Eric Mertens
Luc Philips
Hubert Plouvier
Clément Selleslagh
Paul Tanghe
Jan Vanhevel
Olivier Vanneste
Valère Vanschoenbeek
Herman Van Thillo
Ferdinand Verdonck

Secretary to the Board of Directors and the Executive Committee: Johan Deron

Executive Committee

Remi Vermeiren (President), Frans Florquin, Ghunald Loyaerts, Clément Selleslagh, Rudy Broeckaert, Herman Agneessens, Jan Vanhevel, Luc Philips

Audit Committee

Ferdinand Verdonck (Chairman), Willy Breesch, Jan Huyghebaert, Paul Tanghe, Hubert Plouvier

Auditors

Ernst & Young Bedrijfsrevisoren BCV, represented by Erik De Lembre and Jean-Pierre Romont
PricewaterhouseCoopers Bedrijfsrevisoren BCV, represented by Felix Hendrickx

Management of KBC Insurance NV

Board of Directors

Jos Daniëls	Chairman of the Board of Directors
Alfons Wouters	President of the Executive Committee

Ann Collin
Noël Devisch
Rik Donckels
Carla Durlet
Willy Duron
Jan Huyghebaert
Theo Peeters
Paul Tanghe
Harold Vanden Avenne
Ferdinand Verdonck

Secretary to the Board of Directors and the Executive Committee: Dirk Verdonckt

Executive Committee

Alfons Wouters (President), Willy Duron, Theo Peeters

Audit Committee

Ferdinand Verdonck (President), Paul Tanghe, Jos Daniëls, Harold Vanden Avenne

Auditors

Deloitte & Touche Bedrijfsrevisoren BCV, represented by J. Vlaminckx and F. Mas
KPMG Bedrijfsrevisoren BCV, represented by L. Van Couter and P. Coox

4.45 p.m. - KBC Head Office, Brussels

Company annual accounts of the KBC Bank and Insurance Holding Company

I Consolidated balance sheet and profit and loss account

1.1 Balance sheet after profit appropriation

Assets

(in thousands of EUR)	Note	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
BANKING	1	**143 802 488**	**139 763 219**	**146 483 052**	**4.8%**
I Loans and advances to credit institutions	2, 4	42 935 001	29 639 697	17 189 064	-42.0%
II Loans and advances to customers	3, 4	47 427 443	53 412 201	64 633 988	21.0%
III Securities	5	45 871 131	48 471 107	52 086 750	7.5%
A Fixed-income		44 027 283	46 175 533	48 884 880	5.9%
B Variable-yield		1 843 848	2 295 574	3 201 870	39.5%
IV Financial fixed assets	6	492 399	468 454	1 188 417	153.7%
V Intangible fixed assets and goodwill on consolidation	7	90 318	120 331	142 080	18.1%
VI Tangible fixed assets	7	921 408	1 114 293	1 510 163	35.5%
VII Other assets	7	6 064 788	6 537 135	9 732 590	48.9%
INSURANCE		**6 925 275**	**8 526 228**	**10 217 270**	**19.8%**
VIII Intangible fixed assets and goodwill on consolidation	9	63 792	92 625	83 426	-9.9%
IX Investments	8	6 146 923	7 457 809	8 188 137	9.8%
X Investments for the benefit of life assurance policyholders who bear the investment risk	8	30 285	211 043	1 195 446	466.4%
XI Technical provisions, reinsurers' share	19	221 198	229 611	221 414	-3.6%
XII Debtors	9	228 448	274 419	258 996	-5.6%
XIII Other assets	9	234 628	260 722	269 851	3.5%
HOLDING-COMPANY ACTIVITIES		**0**	**45 624**	**347 209**	**661.0%**
XV Financial fixed assets	10	0	0	285 435	-
XVI Investments and cash at bank and in hand		0	0	41 320	-
XVII Other assets		0	45 624	20 453	-55.2%
ELIMINATIONS (1)	22	**-53 880**	**-609 695**	**-829 085**	**36.0%**
TOTAL ASSETS		**150 673 883**	**147 725 376**	**156 218 445**	**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.

Liabilities

(in thousands of EUR)	Note	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
RISK EQUITY					
I Capital	11	576 987	580 697	582 397	0.3%
II Share premium account	11	1 858 121	1 901 582	1 927 629	1.4%
III Revaluation reserve	11	12 495	11 620	11 115	-4.3%
IV Reserves	11	2 247 700	2 721 678	3 209 692	17.9%
V Goodwill on consolidation (negative goodwill)	11	16 959	16 659	16 805	0.9%
Vbis Imputed goodwill on consolidation	11	0	0	-1 520 067	-
VI Translation differences	11	3 609	-9 695	-11 397	17.6%
Total capital and reserves	11	**4 715 871**	**5 222 542**	**4 216 174**	**-19.3%**
VIII Third-party interests (incl. preference shares)	12	188 139	100 372	1 750 936	1 644.5%
IX Subordinated liabilities	13	3 973 998	4 559 554	5 944 740	30.4%
X Fund for General Banking Risks	14	900 657	1 604 057	1 825 476	13.8%
Total risk equity		**9 778 665**	**11 486 524**	**13 737 326**	**19.6%**
BANKING		**134 917 151**	**128 851 649**	**132 395 644**	**2.8%**
XI Amounts owed to credit institutions	15	50 091 280	36 066 983	28 871 450	-20.0%
XII Amounts owed to customers	16	54 977 411	63 516 382	71 882 057	13.2%
XIII Debts represented by securities	16	23 542 487	21 445 942	21 237 183	-1.0%
XIV Provisions and deferred taxes	17	365 611	509 548	609 661	19.6%
XV Other liabilities	18	5 940 361	7 312 795	9 795 294	33.9%
INSURANCE		**6 012 734**	**7 326 257**	**8 957 401**	**22.3%**
XVI Technical provisions	19	5 617 204	6 598 366	7 045 410	6.8%
XVII Technical provisions for life assurance policies where the investment risk is borne by the policyholders	19	30 285	210 779	1 195 446	467.2%
XVIII Deposits received from reinsurers		109 853	104 022	106 964	2.8%
XIX Provisions and deferred taxes	17	35 697	108 490	177 266	63.4%
XX Other liabilities	20	219 694	304 600	432 316	41.9%
HOLDING-COMPANY ACTIVITIES	21	**0**	**627 736**	**1 660 514**	**164.5%**
XXI Financial liabilities		0	301 166	1 275 714	323.6%
XXIII Other liabilities		0	326 570	384 800	17.8%
ELIMINATIONS (1)	22	**-34 666**	**-566 791**	**-532 440**	**-6.1%**
TOTAL LIABILITIES		**150 673 883**	**147 725 376**	**156 218 445**	**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.

1.2 Profit and loss account

Profit and loss account

(in thousands of EUR)	Note	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
BANKING					
A Net interest income	23, 28	1 828 049	1 864 144 (*)	2 056 647	10.3%
1 Interest receivable and similar income		8 026 792	8 273 861 (*)	8 437 037	2.0%
2 Interest payable and similar charges		-6 198 743	-6 409 717 (*)	-6 380 391	-0.5%
B Income from variable-yield securities	24, 28	84 636	95 859	100 248	4.6%
1 From shares and other variable-yield securities		59 559	77 082	75 203	-2.4%
2 From participating interests and shares constituting financial fixed assets		25 077	18 777	25 045	33.4%
C Profit (Loss) on financial transactions	25, 28	508 116	731 486 (*)	636 182	-13.0%
1 On the trading of securities and other financial instruments		197 389	153 162 (*)	170 561	11.4%
2 On the disposal of investment securities		310 727	578 325	465 621	-19.5%
D Other commission and operating income	26, 28	531 252	731 668 (*)	974 415	33.2%
1 Net commission income		441 223	609 940	756 396	24.0%
2 Other operating income		90 029	121 728 (*)	218 018	79.1%
E Results from participating interests consolidated via the equity method	27, 28	-385	12 174	100 456	725.2%
F General administrative expenses and other charges	29	-1 875 378	-2 060 226 (*)	-2 524 449	22.5%
1 Staff charges		-1 117 078	-1 178 642	-1 369 274	16.2%
2 Depreciation on fixed assets		-176 174	-206 782	-245 366	18.7%
3 Other operating charges		-582 126	-674 801 (*)	-909 809	34.8%
G Write-downs on and provisions for credit risks	30	-164 043	-178 797	-341 618	91.1%
H Transfer to, transfer from the contingency funds		-221 053 (*)	-206 958 (*)	-238 839	15.4%
I Write-downs on securities	31	-3 314	-39 353	21 470	-
J Provisions for other liabilities and charges	17	-18 907	-23 842	3 564	-
K Depreciation of goodwill on consolidation		-12 650	-11 312	-9 190	-18.8%
I Profit (Loss) on ordinary activities, banking		**656 325 (*)**	**914 843 (*)**	**778 886**	**-14.9%**

(in thousands of EUR)	Note	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
INSURANCE	32				
A Earned premiums, net of reinsurance		1 512 434	1 801 048 (*)	2 095 168	16.3%
1 Gross premiums earned		1 596 708	1 869 447 (*)	2 144 513	14.7%
2 Reinsurers' share		-84 274	-68 399	-49 345	-27.9%
B Net technical charges		-1 425 186 (*)	-1 727 603 (*)	-2 125 665	23.0%
of which: adjustments to equalization and catastrophe provision		-13 976 (*)	-10 866 (*)	-3 321	-69.4%
C Investment income and charges		391 818 (*)	476 532 (*)	676 889	42.0%
of which: realized gains on investments		43 381 (*)	86 145 (*)	134 957	56.7%
of which: value adjustments, unit-linked life assurance		559 (*)	13 632 (*)	118 751	771.1%
D Results from participating interests consolidated via the equity method		4 372	4 211	11 495	173.0%
E General administrative expenses and other charges		-295 290 (*)	-317 644 (*)	-344 171	8.4%
F Depreciation of goodwill on consolidation		-484 (*)	-322 (*)	-1 735	-438.8%
Recurring result from ordinary activities		**187 663**	**236 222**	**311 981**	**32.1%**
G Non-recurring income		73 226 (*)	342 157 (*)	257 602	-24.7%
H Non-recurring charges		0	-174 565 (*)	-241 638	38.4%
II Profit (Loss) on ordinary activities, insurance		**260 890**	**403 814**	**327 944**	**-18.8%**
HOLDING-COMPANY ACTIVITIES	33				
A Net interest income		0	-6 138	-10 371	69.0%
B Income from variable-yield securities		0	37	0	-100.0%
2 From participating interests and shares constituting financial fixed assets		0	37	0	-100.0%
C Results from participating interests consolidated via the equity method		0	0	1 421	-
D Other operating income		0	2	2	-
E General administrative expenses and other charges		0	-1 847	-2 230	20.7%
III Profit (Loss) on ordinary activities, holding-company activities		**0**	**-7 947**	**-11 179**	**40.7%**

(in thousands of EUR)	Note	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
IV Extraordinary income	34	**102 189**	**98 612**	**238 790**	**142.1%**
V Extraordinary charges	34	**-32 981**	**-215 079**	**-43 848**	**-79.6%**
VI Profit for the financial year, before tax		**986 423**	**1 194 243**	**1 290 593**	**8.1%**
VII A Transfer from deferred taxes	35	1 185	1 428	1 632	14.3%
B Transfer to deferred taxes	35	-1 357	-3 025	-1 924	-36.4%
VIII Income taxes	35	**-256 697**	**-380 362**	**-228 371**	**-40.0%**
A Income taxes		-267 722	-406 075	-265 701	-34.6%
B Adjustments to income taxes and amounts written back from tax provisions		11 025	25 713	37 329	45.2%
IX Consolidated profit		**729 554**	**812 284**	**1 061 930**	**30.7%**
A Third-party interests		22 471	14 515	92 183	535.1%
B Group interests		707 082	797 768	969 746	21.6%

Because changes were made on the banking side in 1999 to the way KBC Lease accounts for its leasing products and to the way KBC Derivatives accounts for its products, and because the concept of non-recurring income and charges was introduced in the insurance business, the figures as at 31 December 1997 and 31 December 1998 that are marked with an (*) were adjusted in order to enhance transparency and comparability.

- KBC Lease: the rentals derived from KBC Lease's operational leasing activity have been entered in the accounts under 'Other operating income' since the 1999 financial year, while maintenance expenses have been entered under the 'Other operating charges' heading. The balance of these two profit-and-loss-account items used to be posted to the 'Net interest income' heading. The figures as at 31 December 1998 were adjusted retroactively in the following amounts:
  - net interest income: -14 227 euros
  - other operating charges: +18 270 euros
  - other operating income: +32 497 euros

  The figures as at 31 December 1997 did not need to be adjusted, since KBC Lease was not included in the scope of consolidation in 1997.
- KBC Derivatives: in this case, there was a shift from the 'Net interest income' heading to the 'Profit on the trading of securities and other financial instruments' heading. The figures as at 31 December 1998 were adjusted in the amount of 40 060 euros, the figures as at 31 December 1997 were not affected.
- Non-recurring results: see Note 32.

2 Pro forma figures as at 31 December 1997, basis of consolidation and valuation rules: general principles

2.1 *Pro forma* figures as at 31 December 1997

The *pro forma* figures as at 31 December 1997 have been drawn up on the basis of a hypothetical situation, whereby it is assumed that the merger operations carried out to create the Group had been completed as at 1 January 1997.

The *pro forma* figures for the **banking operations** were arrived at on the basis of an aggregation of the consolidated figures for the former Kredietbank NV and CERA Bank CV, to which a number of adjustments were made:

- merger-related entries in respect of the Bank van Roeselare NV
- merger-related entries in respect of CERA Investment Bank NV
- elimination of the value derived via the equity method for Omniver NV and Omniver Leven NV
- elimination of the value derived via the equity method for ABB and VVF relative to capital, as neither participation was included in the contribution of the banking activities of CERA Bank CV to KBC Bank NV
- elimination of the proportional consolidation of VITIS Life Luxembourg SA, as this participation is wholly owned by KBC Insurance NV in the new Group

The *pro forma* figures for the **insurance operations** were arrived at by consolidating the company accounts as at 31 December 1997 of those companies belonging to the Group as at 31 December 1998.

As the principle of consistency in accounting was observed in calculating the *pro forma* figures, differences between the valuation rules applied by the Kredietbank and by CERA Bank, and between those applied by ABB, Fidelitas, Omniver and Omniver Leven have been dealt with for the 1998 financial year.

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

1 Full and proportional consolidation

The method of full consolidation is applied to all subsidiaries and sub-subsidiaries over which the consolidating company exercises exclusive control *de jure* (participating interests of more than 50%) or *de facto*.
Companies over which joint control is exercised, de jure or de facto, together with a limited number of partners, are consolidated according to the method of proportional consolidation.

2 Equity method

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

3 Valuation at acquisition cost

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

4 Cases where these criteria have been departed from

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

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

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

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

5 Main companies included in the consolidation

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

Company (in thousands of EUR)	Registered office	Participation percentage	Total assets 31 Dec. 1999	Net profit 31 Dec. 1999	Capital and reserves 31 Dec. 1999
FULLY CONSOLIDATED COMPANIES					
Banking					
Antwerpse Diamantbank NV	Antwerp - BE	87.17	1 440 364	76 067	102 947
Assurisk SA	Luxembourg - LU	100.00	175 529	0	13 100
CBC Banque SA	Brussels - BE	100.00	8 345 971	32 590	277 864
Centea NV	Antwerp - BE	99.56	10 599 390	53 750	320 490
Krefima NV	Antwerp - BE	99.48	991 931	5 832	49 555
Československá Obchodní Banka AS (ČSOB) (1)	Prague - CZ	82.35	7 155 112	78 193	873 113
KBC Finance Ireland Unltd.	Dublin - IE	100.00	3 097 370	50 553	713 994
Irish Intercontinental Bank Ltd. (Group)	Dublin - IE	100.00	6 658 742	30 282	221 202
KBC Bank NV	Brussels - BE	100.00	117 605 343	427 062	4 898 679
KBC Bank Deutschland AG	Bremen - DE	99.34	489 652	11	52 395
KBC Bank Funding LLC & Trust (Group)	New York - US	100.00	1 492 263	0	10
KBC Bank Nederland NV	Rotterdam - NL	100.00	2 222 189	8 750	99 061
KBC Exploitatie NV	Mechelen - BE	99.92	104 654	523	76 601
KBC Financial Products (Group)	London - UK	100.00	1 741 464	-20 444	69 144
	New York - US				
KBC International Finance NV	Curaçao - NA	100.00	5 146 640	946	2 434
KBC Lease NV (Group)	Diegem - BE	100.00	1 600 498	3 519	70 402
KBC Securities NV	Antwerp - BE	100.00	727 116	61 483	92 198
KBC Securities (France) SA	Paris - FR	100.00	565 088	5 046	13 354
Insurance					
ADD NV	Heverlee - BE	100.00	28 368	-2 144	10 734
Almarisk NV	Brussels - BE	100.00	3 199	64	1 286
Argosz Insurance Corp. Ltd.	Budapest - HU	95.40	19 666	-2 205	6 228
Delphi NV	Antwerp - BE	100.00	37 679	5 759	35 532
Fidea NV	Antwerp - BE	100.00	1 258 018	12 780	263 686
KBC Life Invest SA	Brussels - BE	99.72	1 445	1 292	0
KBC Insurance NV	Leuven - BE	100.00	7 372 433	236 874	1 264 235
Lucare Captive SA	Luxembourg - LU	99.95	51 956	0	1 239
Maatschappij voor Brandherverzekering CV	Leuven - BE	90.91	5 044	302	3 800
Secura NV	Brussels - BE	52.51	595 862	8 347	98 881
Securlux SA	Luxembourg - LU	52.51	26 733	0	1 239
VITIS Life Luxembourg SA	Luxembourg - LU	94.32	1 384 549	3 778	36 481
Holding-company activities					
KBC Bank and Insurance Holding Company NV	Brussels - BE	100.00	5 935 184	628 135	4 274 670
PROPORTIONALLY CONSOLIDATED					
Banking					
International Factors NV	Brussels - BE	50.00	293 107	2 329	11 909
Kereskedelmi és Hitelbank Rt. (K&H Bank)	Budapest - HU	32.62	2 244 806	-32 587	79 545
KBC Derivatives NV (2)	Brussels - BE	60.00	1 204 416	111 372	140 868
Insurance					
K&H Életbiztosító Rt.	Budapest - HU	25.00	4 707	-179	4 176

Company (in thousands of EUR)	Registered office	Participation percentage	Total assets 31 Dec. 1999	Net profit 31 Dec. 1999	Capital and reserves 31 Dec. 1999
CONSOLIDATED ACCORDING TO THE EQUITY METHOD					
Banking					
Bank Card Company NV (3)	Brussels - BE	21.54	540 338	14 765	6 149
Banksys NV (3)	Brussels - BE	20.04	108 589	42 100	38 807
Crédit Commercial de France SA	Paris - FR	16.13	69 292 445	449 208	3 136 571
Kredyt Bank SA (4)	Warsaw - PL	48.59	2 937 355	35 958	156 218
Insurance					
Agropolisa SA	Warsaw - PL	23.30	5 814	-373	1 832
Crédit Commercial de France SA	Paris - FR	1.60	69 292 445	449 208	3 136 571
Chmelařská AS (5)	Zatec - CZ	75.77	11 789	-1 878	10 399
FDB Ltd.	Dublin - IE	19.30	97 140	1 157	80 649
FDB Holdings Plc.	Dublin - IE	23.30	677 152	23 193	136 932
VTB-VAB NV (Group)	Antwerp - BE	24.36	4 591	1 388	3 399
Holding-company activities					
Crédit Commercial de France SA	Paris - FR	0.32	69 292 445	449 208	3 136 571

(1) 71.25% of the shareholding in ČSOB is held by KBC Bank NV, 5.55% by KBC Insurance NV and 5.55% by the KBC Bank and Insurance Holding Company NV.
(2) On the acquisition of the remainder of the shares in January 2000, 'KBC-Petercam Derivatives NV' was renamed 'KBC Derivatives NV'.
(3) Figures as at 31 December 1998.
(4) Since Kredyt Bank is listed on the stock exchange, no financial information on the 1999 financial year can be released before 16 June 2000. The figures shown in the table relate to 31 December 1998.
(5) In 2000, the name will be changed to ČSOB Pojišťovna AS.

6 Changes in the scope of consolidation in 1999

The balance sheet and profit and loss account were significantly influenced in the 1999 financial year by changes in the scope of consolidation. The main changes are shown below; the complete list is contained in the annual accounts that have been filed with the National Bank of Belgium (NBB) and is also available on request.

Changes in the scope of consolidation in 1999	Reason	Consolidation method	Consolidated since
ADDITIONS			
Banking			
Československá Obchodní Banka AS	new participation	full consolidation	30 June 1999 - 65.7% 31 Dec. 1999 - remainder
KBC Bank Funding LLC & Trust (Group)	new participation	full consolidation	the start (various dates)
KBC Exploitatie NV	new participation	full consolidation	1 April 1999
KBC Financial Products (Group)	new participation	full consolidation	the start (± end-October)
Crédit Commercial de France SA	new participation	equity method	1 January 1999
Kredyt Bank SA	new participation	equity method	1 January 1999
Insurance			
KBC Life Invest SA	new participation	full consolidation	the start (September 1998)
Agropolisa SA	new participation	equity method	30 June 1999 - 23.3%
Crédit Commercial de France SA	new participation	equity method	1 January 1999
Holding-company activities			
Crédit Commercial de France SA	new participation	equity method	1 January 1999

Changes in the scope of consolidation in 1999

EXCLUSIONS

Banking

KBC Bank Luxembourg SA	participation sold	deconsolidated 1 Jan. 1999
KBC Bank (Suisse) SA	participation sold	deconsolidated 1 Jan. 1999

CHANGE OF NAME

Banking

Kredietbank-Bankverein AG became KBC Bank Deutschland AG

KBC-Petercam Derivatives NV became KBC Derivatives NV

MAIN CHANGES IN PARTICIPATION PERCENTAGES	31 Dec. 1998	31 Dec. 1999
Banking		
Antwerpse Diamantbank NV	36.94	87.17 increase dates from 30 June 1999
Irish Intercontinental Bank Ltd. (Group)	75.00	100.00 increase dates from 30 June 1999
Kereskedelmi és Hitelbank Rt.	23.13	32.62 increase dates from 10 September 1999
Insurance		
Chmelařská AS	34.01	75.77 since 31 December 1999
Argosz Insurance Corp. Ltd.	89.76	95.40 since 1 January 1999

CHANGE IN CONSOLIDATION METHOD

Antwerpse Diamantbank NV	From proportional to full consolidation, on increase in stake to over 50%.

2.3 Accounting principles and valuation rules: general principles

1 General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the consolidated annual accounts of credit institutions, the Royal Decree of 13 February 1992 on the consolidated annual accounts of insurance and reinsurance companies, and the Royal Decree of 1 September 1986 on holding companies, as amended by the Royal Decree of 25 November 1991 (for the holding-company activities), save however for the divergent presentation.

The KBC Bank and Insurance Holding Company NV is a financial conglomerate by nature and groups the activities of KBC Bank NV and KBC Insurance NV. The presentation for holding companies is not suited for giving a true and fair view of the assets and liabilities, the financial position and the results of the KBC Bank and Insurance Holding Company NV. In drawing up the lay-out that would be used, a functional approach was opted for, based on a breakdown per area of activity (banking, insurance and holding-company activities). This presentation respects the specificity of the different activities and allows for flexibility with regard to the differences in regulation and valuation.
As supervisory authority for listed holding companies, the Belgian Banking and Finance Commission (BFC) gave the KBC Bank and Insurance Holding Company the requisite authorization to draw up its consolidated annual accounts using a functional lay-out that takes into account the mixed activities engaged in by a financial services group.

Compared with 1998, the following minor changes have been made (see also 4 Changes in the presentation of the profit and loss account):

- The share in the profit or loss of companies consolidated according to the equity method is divided up according to the various areas of activity and included under the gross income heading in each case.
- One line will be added to the presentation for the insurance activities for non-recurring income and one for non-recurring charges. Items entered under these headings relate to ordinary business activities but are non-recurring in nature.

The consolidated annual accounts are closed as at 31 December, the closure date for the parent company and the vast majority of the consolidated companies. For those companies with a different closure date, interim accounts are drawn up as at 31 December for the purpose of consolidation. The consolidated annual accounts are drawn up after profit appropriation by the KBC Bank and Insurance Holding Company NV. The annual accounts of the other consolidated companies are included before profit appropriation.

In accordance with Article 63 of the Royal Decree of 6 March 1990 on the consolidated annual accounts of companies, the valuation rules of companies consolidated according to the equity method are not adjusted to bring them into line with those of the consolidating company. An exception is made for one of KBC Insurance's affiliated companies, FBD Holdings, whose results are adjusted by eliminating unrealized gains and losses.

The assets and liabilities belonging to one and the same activity are, in principle, valued according to uniform rules. Differences persist between the activities, owing to the specific rules that apply in the sector. These differences have not, however, been harmonized, in view of the specificity of the areas of activity, and they relate primarily to the securities portfolio.

In the profit and loss account, income and expenditure as between the various areas of activity (banking, insurance and holding-company activities) and which arise in the normal course of business are not eliminated. The corresponding positions on the balance sheet are, however, adjusted via the 'Eliminations' heading. This accounting treatment provides better insight, in business-economic terms, into the results of each business area. In the separate areas of activity, the reciprocal balances on the balance sheet and the profit and loss account are eliminated, starting from an amount of 2.5 million euros. In Note 22, moreover, an indication is given of the reciprocal transactions between the banking, the insurance and the holding-company activities.

Intragroup gains and losses are eliminated commensurate with the percentage share (direct and indirect) held by the consolidating company in each of the subsidiaries concerned. Internal gains and losses of under 0.5 million euros are not eliminated.

Comment regarding the comparative figures for the 1998 financial year:
The operations relating to the merger, the contribution of a totality of assets and liabilities and the contribution of a business entity were also reflected in the consolidated annual accounts in accordance with the principle of consistency, pursuant to the provisions of the Royal Decree of 8 October 1976 on the annual accounts of companies. This means that the assets and liabilities items relating specifically to the consolidation and originating from the contributing companies were added to the corresponding headings of the recipient companies on the basis of their carrying value.

2 Valuation rules

a) Currency translation

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

- **Banking**

  Negative and positive valuation differences, except for those relating to the financing of shares and participating interests in foreign currency, are recorded in the profit and loss account. Non-monetary items are valued on the basis of the historical rate at acquisition. Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they are recognized. Foreign-currency income and expenditure for which provision had been made in advance are entered in euros on the basis of the fixed rate.

- **Insurance**

The balance of the positive and negative differences arising from the translation of the technical provisions denominated in foreign currency are included under the corresponding 'Adjustments to the technical provisions' headings in the profit and loss account.

The negative balance of the differences arising from the translation of monetary items, other than the technical provisions, denominated in foreign currency, is charged to the profit and loss account. The positive balance is entered under the accruals and deferrals heading as income to be carried forward, with the exception of the positive differences on EMU currencies, which were already reflected in the result for the 1998 financial year, in view of their definitive nature.

For non-monetary items whose acquisition cost is expressed in foreign currency, the equivalent in euros at which these items are posted to the annual accounts is calculated on the basis of the exchange rate prevailing at the end of the month preceding the acquisition of the non-monetary items.

Charges and income expressed in foreign currency are translated quarterly and included in the profit and loss account at the spot rate prevailing at the end of the quarter.

- **Holding-company activities**

The negative translation differences are taken into account via the 'Unrealized exchange differences' heading in the profit and loss account. The positive translation differences are included in the balance sheet under the 'Accrued charges and deferred income' heading, with the exception of the positive differences on EMU currencies, which were already reflected in the result for the 1998 financial year, in view of their definitive nature.

b) Translation of the financial statements of foreign subsidiaries

The balance sheets of foreign subsidiaries are translated into euros at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The profit and loss account is translated at the average rate for the financial year. Differences arising because the exchange rate used for assets and liabilities items differs from that used for items constituting capital and reserves are included (together with the exchange rate differences on loans concluded to finance participating interests in foreign currency), in the amount of the Group's share, under the liabilities heading, 'Translation differences'.

The translation differences accumulated until the close of 1998 and originating from the translation of financial statements denominated in an EMU currency will be maintained under this heading.

Translation differences are imputed to the result upon the transfer in whole or in part of the participating interest.

c) Amounts receivable

- **Banking**

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account right away, and is therefore posted to an accruals and deferrals heading. As at the end of the month, the amount that has accrued is written to the profit and loss account.
Origination and processing fees charged are taken to the results immediately on the inception of the loans and advances concerned, credit insurance premiums are written to the profit and loss account annually when paid.
Commissions receivable (payable in advance) for bank guarantees given are included in the profit and loss account forthwith. The commissions awarded by KBC Bank for credit broking are imputed to the results when the credit is disbursed.

Amounts receivable arising from advances or cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is prorated according to the straight-line method as interest receivable via the accruals and deferrals accounts.
Long-term credit, consumer credit and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings. The other amounts receivable are stated in the balance sheet at nominal value.

Loans and advances that are transferred through securitization operations, whereby the transfer of these assets qualifies as a sale under Belgian Banking and Finance Commission guidelines, no longer constitute bank assets and consequently may not appear in the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. During the term of the securitization operation, the entry in the contingent accounts is required to be adjusted at the end of each month in accordance with customers' loan repayments.
Any gains realized on the sale of securitized assets are taken to the profit and loss account immediately at the time of the sale. If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for dossiers that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will be allocated to the interest reserve.
Non-specific write-downs are calculated for loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.

For credit classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding credits, including the interest due and various other amounts receivable. Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is entered in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to 'Net interest income' on an accruals basis.

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the Belgian Banking and Finance Commission. In addition, the bank sets aside additional funds which it considers necessary for the management of country risks. These are risks in respect of countries or groups of countries whose economic, financial, legal or political situation warrants the setting aside of provisions on prudential grounds. The overall provision for country risks is recorded as an adjusting entry under the 'Loans and advances to credit institutions' heading.

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

- **Holding-company activities**
  Amounts receivable are entered at nominal value.

d) Securities

Securities are recorded under assets headings III, IX and X.

Securities are entered at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- **Investment portfolio**

  Fixed-income investment securities are recorded at acquisition cost, plus or minus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as interest receivable in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, according to the real rate of return at the time of purchase.Perpetual debt is valued at the lower of acquisition cost and market value.

  If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.If securities are sold, their carrying value is established on a case-by-case basis. Gains or losses are posted directly to the profit and loss account, except if they are derived from the sale of fixed-income investment securities in certain arbitrage transactions.

  - **Banking**

    In accordance with Article 35ter, §5, of the Royal Decree on the annual accounts of credit institutions, gains and losses on the sale of fixed-income investment securities in arbitrage transactions that are carried out within the bounds set annually by the Executive Committee are reflected in the profit and loss account, spread over time, together with the future income derived from the arbitrage.Shares and other variable-yield securities are valued at the lower of acquisition cost and market value. No write-downs are posted for shares hedged against a decline in price by means of an option.

  - **Insurance**

    Write-downs are posted on fixed-income investment securities serving to support liquidity if their market value is lower than the value arrived at by applying the other stipulations contained in these valuation rules and if uncertainty prevails regarding payment of all or part of the amount receivable on the due date.

    Gains and losses on the sale of fixed-income investment securities for the purpose of arbitrage transactions are included in the profit and loss account, spread over time, together with the future income derived from the arbitrage.Shares and other variable-yield securities are valued at acquisition cost, with a write-down being charged in the event of a lasting diminution in value.

- **Trading portfolio**

  Investments for the benefit of life assurance policyholders who bear the investment risk:

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

e) Financial fixed assets

Financial fixed assets are recorded under assets headings IV, IX and XV and, depending on the area of activity concerned, include participating interests, (subordinated) loans and securities held in portfolio.

Participating interests consolidated according to the equity method are valued according to the share held in the relevant companies’ capital and reserves. Participating interests that are not included in the consolidation and shares constituting financial fixed assets are recorded at acquisition cost. Additional costs incurred on acquisition are charged forthwith to the results for the financial year.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to affiliated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

■ **Holding-company activities**

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

f) Formation expenses and intangible fixed assets

Formation expenses and intangible fixed assets are recorded under assets headings V, VIII and XIV.

All formation expenses are charged directly to the financial year as administrative expenses.
Software developed in-house is charged immediately to the result. Systems software is depreciated at the same rate as hardware. Standard software and software customized or developed by third parties is capitalized and depreciated according to the straight-line method over its useful economic life. Capitalized goodwill is written off according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise. On the merger in 1998, an eight-year co-operation agreement was signed between KBC Bank and KBC Insurance, on the one hand, and the HBB (Boerenbond), on the other, whereby KBC Bank and KBC Insurance acquired intangible fixed assets that are to be depreciated over a period of eight years.

g) Goodwill on consolidation

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

■ **General principle**

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

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

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

■ **Exceptional derogation for the 1998 financial year**

The creation of the KBC Bank & Insurance Group prompted a great many shifts in participations. These shifts often resulted in gains, as the transactions were effected at market value. In addition, the higher acquisition cost resulted in goodwill on consolidation for the buyer.

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

The above principle was applied specifically to:
- the gains realized on the transfer of MRBB CV shares
- the purchase of Fidea NV shares (formerly Fidelitas NV) by KBC Insurance NV

The impact these elements had on the consolidated results of the KBC Bank and Insurance Holding Company NV for the 1998 financial year came to 11.8 million euros and is reflected under the following headings in the profit and loss account:
- heading 'IV Extraordinary income': 72.5 million euros
- heading 'V Extraordinary charges': 60.7 million euros

- **Treatment of goodwill on consolidation for acquisitions after 1 January 1999**
  (see also 3 Changes in valuation rules)
  - Goodwill on consolidation
    For acquisitions since 1 January 1999, the Belgian Banking and Finance Commission granted temporary authorization to depart from the rule and deduct positive goodwill on consolidation from consolidated capital and reserves, specifically via liabilities heading 'Vbis Imputed goodwill on consolidation'. These differences are transferred periodically to the reserves commensurate with the relevant theoretical depreciation (in this case, over a ten-year period).
    Accordingly, if a participation is sold within ten years of its having been acquired, the gains are adjusted on the basis of the goodwill which is still present under the 'Vbis Imputed goodwill on consolidation' heading in the capital and reserves.
    The Board of Directors will decide on a case-by-case basis whether or not to have recourse to the derogation allowed by the Belgian Banking and Finance Commission.
  - Negative goodwill on consolidation
    These consolidation differences are included in the consolidated accounts under the 'Goodwill on consolidation (negative goodwill)' heading on the liabilities side of the balance sheet.
    Differences entered on the liabilities side remain unchanged, unless the participation is subsequently sold or compensation is entered for a positive difference subsequently established with respect to the same participation.

h) Tangible fixed assets

Tangible fixed assets are recorded under assets headings VI, XIII and XVII.

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

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

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

i) Amounts owed

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

j) Fund for General Banking Risks

The Fund for General Banking Risks is for handling contingent risks that may be encountered in the banking business and whose actual outcome is not known at the time the annual accounts are closed.

k) Provisions for liabilities and charges

Provisions for liabilities and charges are recorded under liabilities headings XIV, XIX and XXII.

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

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

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

- **Other liabilities and charges**
  Provisions are set aside for, inter alia:
  - costs associated with the introduction of the euro and with the year 2000
  - legal disputes
  - large-scale maintenance and repairs
  - commitment credit
  - restructuring within the context of the merger

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

l) Contingent tax liabilities

Contingent tax liabilities are recorded under liabilities headings XV, XX and XXIII.

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

m) Technical provisions

The technical provisions are recorded under liabilities headings XVI and XVII.

For direct business, the provision for unearned premiums is, wherever possible, calculated according to the three-hundred-and-sixty-fifths method; otherwise, the twenty-fourths method is used. This provision is calculated on the basis of premiums written, net of commissions. For reinsurance ceded, the provision for unearned premiums is calculated according to the contractual stipulations. For reinsurance business received and retrocession, a rate of 50% of the eligible premiums for the current financial year is used for the computation.

The life assurance provision is computed according to the prevailing actuarial principles. At the consolidated level, the following rules apply:

- The technical provisions for (i) conventional class-21 life assurance and (ii) modern class-21 life assurance offering a guaranteed rate of interest on future payments are calculated using prospective actuarial formulas applied to basic underwriting assumptions made with regard to the contracts. For policies concluded prior to 1 January 1999 and for loan balance insurance taken out before 1 October 1999, the same rule applies, except as far as the interest rate is concerned, which in this case is 4%.
- The technical provisions for modern class-21 life assurance offering no interest-rate guarantee on future payments are calculated using retrospective formulas applied to the basic underwriting assumptions underlying the contracts.For policies concluded prior to 1 January 1999, the same rule applies, except that in this case an interest rate of 4% is used.
- The technical provisions for class-23 (unit-linked) life assurance are computed by multiplying the number of units per fund by the price per unit of the fund in question.
- The provision for claims outstanding is calculated per claim or per contract, and is based on known elements in the file.
- All amounts in the equalization and catastrophe provision are for offsetting the non-recurring underwriting losses in the years ahead, for equalizing fluctuations in the loss ratio, and for covering special risks.
  At the consolidated level, the required amount this provision should reach has been set aside since the 1998 financial year. This amount is calculated using the flat-rate methods described in the communication entitled '*Voorziening voor egalisatie en catastrofes*' (Equalization and Catastrophe Provision) from the Belgian Insurance Supervisory Authority (CDV) D. 151.

n) Consolidated reserves

The Group reserves include the reserves and the profit brought forward of the consolidating company, along with the Group's share in the retained profits of the other fully or proportionally consolidated companies and of the companies included in the consolidation from the start according to the equity method.

o) Third-party interests

These include the share of third parties in the capital and reserves and in the profit (loss) of the fully consolidated companies. Third-party interests also include the preference shares issued via KBC Bank. These shares qualify as Tier-I capital for the purpose of calculating the solvency ratio.

p) Financial instruments

- **Valuation rules for trading and non-trading activities**
  Where trading activities are concerned, the unrealized profit or loss on revaluation is recognized at least at the end of every month. This revaluation takes into account any results realized from future cash flows that have already been recognized on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognized immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognized.
  The existing proprietary strategic positions the dealing room takes via derivatives with a view to generating a profit on the long term by way of gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

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

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

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

Products	Recognition on an accruals basis of fixed (and possible future) charges or income	Release to results of actual income or expenditure	Additional 'mark-to-market' or 'lower of cost and market' valuation (general LT interest rate management)
IRS	hedging + trading + general ST + LT management	-	trading + general LT management in foreign currency
CIRS	hedging + trading + general ST + LT management	-	trading + general LT management in foreign currency
FX swap	hedging + trading + general ST management	-	trading
FX outright	hedging + trading + general ST management	-	trading
Interest rate future	hedging + general ST + LT management	trading	trading + general LT management in foreign currency
FRA	hedging + general ST + LT management	trading	trading + general LT management in foreign currency
Interest rate option	hedging + general ST + LT management	trading	trading + general LT management in foreign currency
Caps and floors	hedging + general ST + LT management	trading	trading + general LT management in foreign currency
Currency option	not applicable	trading + hedging	trading + hedging
Share option	not applicable	hedging + trading	trading
Equity swap	hedging + trading	-	trading

- **Hedging criteria for forward interest rate transactions**
The general criteria are set out in Article 36bis of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:
  - the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation
  - the transaction must be recorded in the books as a hedge from its inception
  - a close correlation must be established between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, a correlation must be established between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument

In addition, our own specific criteria apply. All these criteria are cumulative: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists. Future interest rate positions can be hedged if it is reasonably certain that the position will actually come about. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- **Calculation of unrealized profit/loss on revaluation**

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the books. Only for calculating capital adequacy requirements relative to market risks is the market risk per counterparty calculated on a net basis.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the 'net present value' of future, determinable cash flows, which is calculated using a single yield curve per currency, one used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For off-balance-sheet forward interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as 'doubtful' or 'irrecoverable', the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs will be taken; for commitments, provisions will be set aside.

3 Changes in valuation rules

- **Goodwill on consolidation**

In derogation from what is stipulated in Articles 51 and 52 of the Royal Decree of 6 March 1990 on the consolidated annual accounts of companies, positive consolidation differences arising on acquisitions made after 1 January 1999 are deducted immediately from the consolidated capital and reserves. Authority to derogate from the relevant was granted by the Belgian Banking and Finance Commission (BFC) by virtue of Article 30.2 of the Seventh Directive.

The decision to deduct consolidation differences directly from consolidated capital and reserves was prompted by industry practice in those countries (including the Netherlands and Germany) that on the transposition of the Seventh Directive opted to deduct goodwill directly from own funds. The present departure from the rule was prompted by the competitive disadvantage that would otherwise result from any comparison of published figures with those of industry members in the countries referred to.

The goodwill on acquisitions in the 1999 financial year comes to a total of 1 634.3 million euros and arose mainly from CCF (728 million euros) and ČSOB (667 million euros). This amount was deducted in full from the capital and reserves; in 1999, the theoretical depreciation charge on this item came to 114.3 million euros. If the BFC had not authorized this derogation, ROE would have come to 15.6%.

- **Life assurance provision**

To calculate the technical provisions for conventional products (apart from conventional group co-assurance), the former ABB had for several years used a discount rate of 4% instead of the industry norm of 4.75%, which corresponded to the guaranteed rate of interest.

In order to bring Fidea's technical life assurance provisions into line with the group valuation rule, an extra life assurance provision was set aside at the consolidated level as at 31 December 1998 in the amount of 56.7 million euros. However, calculations of capital and reserves for determining the goodwill on the consolidation of Fidea took this change into account.

For the former Omniver Leven's contemporary life assurance offering flexible premium payments with a guaranteed rate of interest on future premiums, an extra provision was set aside at the consolidated level as at 31 December 1998 in the amount of 51.5 million euros for the retrospective portion of the reserve.

For contemporary life assurance offering a guaranteed rate of interest on future payments, more specifically for policies concluded prior to 1 January 1999, technical provisions were calculated as at 31 December 1999 according to the prospective method, using a discount rate of 4%. Accordingly, an extra charge of 76.5 million euros was taken.

As at 31 December 1999, the technical provisions for all modern life assurance not offering a guaranteed rate of interest, namely for policies concluded prior to 1 January 1999, were calculated according to the retrospective method, using a discount rate of 4%. This led to a negative impact on the results of 45.3 million euros.

Moreover, as at 31 December 1999, the technical provisions were adjusted in the amount of 9.3 million euros (negative impact on the results) for traditional group assurance provided jointly with other assurers.

4 Changes in the presentation of the profit and loss account

Compared with last year, the presentation of the profit and loss account has been changed as follows:

- **Change in 'Result from participating interests consolidated via the equity method'**
  The Belgian Banking and Finance Commission granted the KBC Bank & Insurance Group authorization to show the 'Result from participating interests consolidated via the equity method' heading as a separate item in the profit on ordinary activities for each area of activity from now on. This enhances the coherence and transparency of the financial reporting of our group as a bancassurer and is in line with the presentation used by fellow bancassurers operating on the same markets particularly in the Netherlands. Moreover, it heightens consistency between the costs and benefits associated with investments in companies consolidated according to the equity method.

- **Introduction of two new headings for profit on ordinary activities in the insurance business**
  Two headings have been added, namely 'Non-recurring income' and 'Non-recurring charges'. These are components of the results that are linked to ordinary business activities, but which are, as the name implies, non-recurring (see also Note 32).

3 Notes and detailed figures

This chapter contains detailed tables and notes to the main headings in the consolidated balance sheet and profit and loss account of the KBC Bank & Insurance Group. For a brief overview of the activities and results, please see the 'Report on Activities - 1999'.

3.1 Changes in the balance sheet

At 156.2 billion euros, the total assets of the KBC Bank & Insurance Group were 5.7% higher than the figure for the close of 1998. If the scope of consolidation had remained unchanged, the total assets would have remained virtually the same, due to the strict curtailment of growth in the weighted volume of risk in the banking business.

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

Geographic and monetary breakdown of total assets, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Geographic breakdown				
Belgium	79 452 689	79 397 850	79 244 666	-0.2%
Abroad	64 349 799	60 365 368	67 238 386	11.4%
Euro zone	-	-	31 010 215	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	79 525 944	75 328 537	106 033 783	40.8%
In foreign currency	64 276 545	64 434 681	40 449 269	-37.2%
Total assets, banking	**143 802 488**	**139 763 219**	**146 483 052**	**4.8%**

Bank assets account for 93.8% of total Group assets. Assets in Belgium account for over half of total bank assets and include primarily loans and advances to customers and Belgian government securities. Foreign assets comprise loans and advances to customers, securities put out by public and non-public issuers, as well as the lion's share of loans and advances to credit institutions. 46.1% of foreign assets involve counterparts located within the euro zone. The proportion of foreign currency items on the balance sheet has decreased significantly as a result of the launch of the euro, i.e. from 46.1% at the end of 1998 to 27.6% at the close of 1999.

Note 2: Loans and advances to credit institutions, banking

Loans and advances to credit institutions, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**42 935 001**	**29 639 697**	**17 189 064**	**-42.0%**
Trade bills eligible for refinancing at the central bank of the country in which the institution is established	24 601	49 847	50 716	1.7%
Geographic breakdown				
Belgium	11 292 087	5 394 553	3 622 683	-32.8%
Abroad	31 642 914	24 245 145	13 566 381	-44.0%
Euro zone	-	-	5 563 124	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	12 797 518	3 662 943	8 293 535	126.4%
In foreign currency	30 137 484	25 976 754	8 895 529	-65.8%

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Breakdown according to remaining term to maturity				
Repayable on demand	4 142 778	8 008 290	2 098 366	-73.8%
With agreed maturity dates or periods of notice	38 792 223	21 631 407	15 090 698	-30.2%
• not more than three months	25 347 366	14 552 635	9 453 590	-35.0%
• more than three months but not more than one year	11 936 812	4 300 849	2 801 027	-34.9%
• more than one year but not more than five years	1 003 196	1 131 794	1 301 508	15.0%
• more than five years	257 474	265 032	186 585	-29.6%
• undated	247 376	1 381 097	1 347 988	-2.4%

Quality, write-downs and provisions (for changes: see Note 4)	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Gross amount outstanding	5 396 308	24 319 720	3 622 683	13 695 931
Write-downs on and provisions for loans with an uncertain outcome	-1 755	-202	0	-7 976
Provision for country risks	0	-74 374	0	-121 575
Net amount outstanding	**5 394 553**	**24 245 145**	**3 622 683**	**13 566 381**

Loans and advances to credit institutions fell by 42% to 17.2 billion euros, with most being short-term loans and advances to foreign credit institutions. As was the case in 1998, this continued decline is attributable to the policy aimed at curtailing risk assets and improving the return on capital employed.
The provision for country risks is charged in full to loans and advances to credit institutions. For comments regarding this provision, please see Note 4, 'Write-downs on and provisions for loans and advances to credit institutions and customers, banking'.

Note 3: Loans and advances to customers, banking

Loans and advances to customers, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**47 427 443**	**53 412 201**	**64 633 988**	**21.0%**
Trade bills eligible for refinancing at the central bank of the country in which the institution is established	211 009	259 762	266 292	2.5%
Subordinated loans	0	1 239	1 239	0.0%
Geographic breakdown				
Belgium	33 401 117	36 762 010	43 144 693	17.4%
Abroad	14 026 326	16 650 190	21 489 295	29.1%
Euro zone	-	-	8 080 745	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	32 274 353	35 609 512	48 766 624	36.9%
In foreign currency	15 153 090	17 802 688	15 867 364	-10.9%
Breakdown according to remaining term to maturity				
With agreed maturity dates or periods of notice	47 247 443	53 412 201	64 635 988	21.0%
• not more than three months	9 370 199	11 217 825	13 924 325	24.1%
• more than three months but not more than one year	6 033 572	5 056 192	7 143 016	41.3%
• more than one year but not more than five years	15 104 369	17 376 022	18 861 697	8.6%
• more than five years	13 369 614	15 618 534	19 496 212	24.8%
• undated	3 549 689	4 143 628	5 208 738	25.7%

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Breakdown by type of credit				
Discount and acceptance credit	757 317	723 498	848 868	17.3%
Consumer credit	2 212 742	2 574 313	3 012 224	17.0%
Mortgage loans	11 092 789	11 467 633	14 646 511	27.7%
Term loans at more than one year	21 227 807	24 411 240	25 846 866	5.9%
Term loans at not more than one year	7 282 019	7 163 135	10 431 621	45.6%
Current account advances	3 092 102	3 671 727	4 978 311	35.6%
Other amounts receivable	2 196 925	3 491 163	4 391 129	25.8%
Doubtful loans, write-downs and provisions	-434 256	-90 508	478 456	-

Geographic breakdown	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Discount and acceptance credit	381 055	342 443	349 092	499 776
Consumer credit	2 532 768	41 545	2 976 433	35 791
Mortgage loans	10 089 749	1 377 885	12 429 931	2 216 580
Term loans at more than one year	14 563 179	9 848 062	14 372 497	11 474 369
Term loans at not more than one year	5 018 894	2 144 240	6 936 764	3 494 857
Current account advances	2 163 363	1 508 364	3 833 021	1 145 290
Other amounts receivable	2 021 799	1 469 364	2 209 297	2 181 832
Doubtful loans, write-downs and provisions	-8 796	-81 712	37 658	440 799
Total	**36 762 010**	**16 650 190**	**43 144 693**	**21 489 295**

Quality, write-downs and provisions (for changes: see Note 4)	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Gross amount outstanding	**37 502 973**	**16 888 747**	**43 945 120**	**22 313 913**
Normal	36 070 516	16 549 627	42 660 630	20 090 267
Uncertain outcome	700 291	256 414	446 406	958 229
Irrecoverable and doubtful	732 167	82 705	838 085	1 265 417 (1)
Write-downs and provisions	**-740 963**	**-238 556**	**-800 427**	**-824 619**
For irrecoverable and doubtful loans	-586 541	-74 139	-614 057	-338 429
For loans with an uncertain outcome				
• On a case-by-case basis	-97 997	-102 907	-103 372	-396 914
• On a portfolio basis	-56 425	-61 511	-82 998	-89 275
Net amount outstanding	**36 762 010**	**16 650 190**	**43 144 693**	**21 489 295**
(1) Including receivables guaranteed by the Czech government	-	-	-	864 385

Bank lending increased by 21% to 64.6 billion euros, thanks to activity on both the domestic and the international front. Organic credit growth, i.e. excluding the impact of acquisitions in 1999, came to 14.4%.

Domestic lending

On its home market, KBC Bank managed to enlarge its share of most market segments yet again, after the steady increase achieved in the past few years. At the end of 1999, KBC accounted for 21.3% of total domestic lending, compared with 20.2% at the end of 1998. In both the retail segment (mortgage loans and consumer credit) and corporate segment (term credits and advances in current account), demand for credit last year was significantly stronger than in the preceding years, thanks to the favourable economic situation. This resulted in a 17.4% rise in domestic credit.

Mortgage lending on the Belgian market was up 23.2% on its figure for the previous financial year. Refinancing operations continued to make up a relatively high percentage (roughly 30%, as against approximately 25% in 1998) of mortgage loan production, because of low long-term interest rates. The decline in domestic mortgage lending in 1998, compared with the *pro forma* figure for the close of 1997, is attributable to two securitization operations that KBC Bank conducted

in 1998 for a total of over 600 million euros. Domestic consumer credit expanded by 17.5%, thanks to the commercial efforts made regarding this product, as well as the impact of Batibouw (which led to much renovation work being financed via consumer credit). The first securitization operation for car loans is planned for 2000.
In the corporate segment, preference was shown for short-term credit (straight loans and advances in current account), which can be attributed to, among other things, the steep yield curve and the healthy state of the economy, which is causing investments, too, to be financed on a fairly short-term basis at times.

As far as the quality of domestic loans is concerned, 1.9% are classified as doubtful, i.e. the loan balance is payable and debt-recovery procedures have been initiated in or out of court. Substantial write-downs and provisions covering 73.3% of these irrecoverable and doubtful loans have been taken, with the remainder being covered by security or the expected liquidation value. In addition, 1% of the domestic portfolio has been classified on prudential grounds as having an uncertain outcome. These are loans to borrowers experiencing difficulties in meeting their commitments or expected to do so, but whose inability to pay is not certain. Both specific and non-specific write-downs and provisions are calculated for loans with an uncertain outcome, whereby account is taken of, among other things, the historic average percentage susceptible to reclassification and the loss percentages (also see the valuation rules).

International lending

Growth in international lending (up 29.1%) was curtailed by a 1.5 billion US dollar securitization operation carried out by the New York branch in April 1999, although the figure is also distorted the other way by the inclusion of ČSOB in the scope of consolidation. If these two factors are not taken into account, international lending would have gone up by 14%. The less-pronounced organic growth in international lending is related to the strategy aimed at limiting the increase in risk assets.
At the end of 1999, loans abroad accounted for one-third of total lending. Organic growth in this activity was recorded primarily outside the emerging markets, particularly in the US and Western Europe, and was spread over most sectors with the exception of real estate. In Ireland, a sharp increase in lending was registered, thanks to the vigorous growth of the Irish economy, the expansion of Project Finance, as well as the rise in securities lending.

The trend in respect of doubtful loans abroad was distorted by the inclusion of ČSOB in the scope of consolidation. If the changes to the consolidation perimeter are not taken into account, just under 1% of the loan portfolio would have been classified as doubtful. In addition, at the close of 1999, 2.6% of loans abroad (excluding the acquisitions) were classified on prudential grounds as having an uncertain outcome (for the definition of 'uncertain outcome', see domestic lending above).
Total doubtful and irrecoverable loans abroad (1 265 million euros) include 864 million euros' worth of ČSOB loans backed by the Czech government. After deducting this security, total doubtful loans abroad account for 1.8% of the international lending portfolio, with 84.4% of this figure being covered by loan loss provisions and the remainder by security or the expected liquidation value.

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

Write-downs on and provisions for loans and advances, banking

(in thousands of EUR)	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Write-downs on and provisions for	**742 718**	**313 132**	**800 427**	**954 169**
loans and advances to credit institutions	1 755	74 576	0	129 550
loans and advances to customers	740 963	238 556	800 427	824 619
Write-downs on and provisions for	**742 718**	**313 132**	**800 427**	**954 169**
irrecoverable and doubtful loans	586 541	74 139	614 057	338 429
loans with an uncertain outcome, case-by-case valuation	99 752	103 108	103 372	404 890
loans with an uncertain outcome, valuation on a portfolio basis	56 425	61 511	82 998	89 275
for country risks	0	74 374	0	121 575

Movements

(in thousands of EUR)	Irrecoverable and doubtful loans	Loans with an uncertain outcome		Country risks
		Valuation on a case-by-case basis	Valuation on a portfolio basis	
Loans and advances to domestic borrowers				
Opening balance, 1 Jan. 1999	586 541	99 752	56 425	0
● Movements with an impact on results				
- Increase	116 587	37 467	27 757	0
- Decrease	-36 383	-12 311	-5 042	0
● Movements without an impact on results				
- Write-offs	-113 536	-3 234	-1 955	0
- Translation differences	2 643	0	1 241	0
- Change in the scope of consolidation and reclassification	58 205	-18 301	4 572	0
Closing balance, 31 Dec. 1999	**614 057**	**103 372**	**82 998**	**0**
Loans and advances to borrowers abroad				
Opening balance, 1 Jan. 1999	74 139	103 108	61 511	74 374
● Movements with an impact on results				
- Increase	177 049	180 905	15 045	37 251
- Decrease	-65 910	-100 264	-1 919	-3 240
● Movements without an impact on results				
- Write-offs	-157 654	-29 656	-1 223	0
- Translation differences	10 734	33 614	6 551	1 889
- Change in the scope of consolidation and reclassification	300 071	217 184	9 311	11 299
Closing balance, 31 Dec. 1999	**338 429**	**404 890**	**89 275**	**121 575**
Total loans and advances to credit institutions and customers				
Opening balance, 1 Jan. 1999	660 680	202 861	117 936	74 374
● Movements with an impact on results				
- Increase	293 636	218 371	42 802	37 251
- Decrease	-102 292	-112 575	-6 960	-3 240
● Movements without an impact on results				
- Write-offs	-271 189	-32 890	-3 178	0
- Translation differences	13 376	33 614	7 792	1 889
- Change in the scope of consolidation and reclassification	358 276	198 882	13 883	11 299
Closing balance, 31 Dec. 1999	**952 486**	**508 262**	**172 273**	**121 575**

The write-downs and provisions deducted for **doubtful loans** from loans and advances to customers went up from 660.7 million euros at the close of 1998 to 952.5 million euros at the end of 1999. The increase was accounted for primarily by loans granted abroad which resulted from changes in the scope of consolidation.

The write-downs and provisions deducted on a case-by-case basis for **uncertain loans** from loans and advances to customers climbed from 202.9 million euros at the end of 1998 to 508.3 million euros at the close of 1999. In 1999, write-downs and provisions for loans to borrowers abroad were taken for Trade Finance, Southeast Asia and KBC Bank Deutschland (see Note 30). The increase posted for borrowers abroad was also due to changes in the scope of consolidation.

The write-downs and provisions taken on a portfolio basis for **uncertain loans** increased from 117.9 million euros at the close of 1998 to 172.3 million euros at the end of 1999. This is attributable in the main to the provision of 43.9 million euros set aside on a portfolio basis as at 30 June 1999 for the dioxin crisis, 18.7 million euros of which was written back at the close of the 1999 financial year, as significant loan losses failed to materialize.

The provision for **country risks**, which is charged in full to the 'Loans and advances to credit institutions' heading, rose by 47.2 million euros to 121.6 million euros in 1999. The increase in this provision was due to the changes in the scope of consolidation and translation differences to the tune of 13.2 million euros, as well as to an allocation of 34.0 million euros made via the profit and loss account (see Note 30).

Note 5: Securities, banking

Securities, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**45 871 131**	**48 471 107**	**52 086 750**	**7.5%**
Geographic breakdown				
Belgium	30 922 169	33 116 961	26 161 580	-21.0%
Abroad	14 948 962	15 354 146	25 925 169	68.8%
Euro zone	-	-	14 909 717	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	30 539 616	31 785 838	40 290 959	26.8%
In foreign currency	15 331 515	16 685 269	11 795 791	-29.3%
Breakdown by type of security				
Fixed-income securities	44 027 283	46 175 533	48 884 880	5.9%
• Treasury bills eligible for refinancing at the central bank	2 493 166	1 940 869	2 440 283	25.7%
• Bonds and other fixed-income securities	41 534 117	44 234 664	46 444 597	5.0%
Shares and other variable-yield securities	1 843 848	2 295 574	3 201 870	39.5%

Breakdown by type of security and portfolio	31 Dec. 1998		31 Dec. 1999	
	Trading portfolio	Investment portfolio	Trading portfolio	Investment portfolio
Total fixed-income securities	**4 310 766**	**41 864 767**	**3 774 980**	**45 109 900**
Treasury bills eligible for refinancing at the central bank	6 937	1 933 932	91 508	2 348 775
Bonds and other fixed-income securities	4 303 829	39 930 835	3 683 473	42 761 125
• Public issuers	3 713 979	28 822 644	3 025 639	29 405 110
- Belgian government	3 281 431	25 249 341	2 413 940	20 374 903
- Other governments	432 548	3 573 303	611 699	9 030 207

Breakdown by type of security and portfolio	31 Dec. 1998 Trading portfolio	31 Dec. 1998 Investment portfolio	31 Dec. 1999 Trading portfolio	31 Dec. 1999 Investment portfolio
● Other issuers	589 850	11 108 191	657 834	13 356 015
a) - Belgian issuers	66 700	1 487 865	14 476	1 513 959
- Other issuers	523 150	9 620 326	643 358	11 842 056
b) - Credit institutions	305 619	6 961 637	274 780	9 587 281
- Other	284 231	4 146 554	383 054	3 768 734
Shares and other variable-yield securities	**877 255**	**1 418 318**	**1 973 781**	**1 228 089**
Belgian issuers	419 289	939 717	527 334	646 774
Other issuers	457 966	478 602	1 446 448	581 314
Total, securities portfolio	**5 188 021**	**43 283 086**	**5 748 761**	**46 337 988**
Bonds and other fixed-income securities				
Trading portfolio				
● Positive difference between market value and acquisition cost	131 167	-	573 501	-
Investment portfolio				
● Premiums (positive difference between redemption value and carrying value)	-	145 286	-	486 518
● Discounts (negative difference between redemption value and carrying value)	-	1 947 992	-	1 376 036
Shares and other variable-yield securities				
Trading portfolio				
● Positive difference between market value and acquisition cost	35 116	-	264 299	-

Investment portfolio	31 Dec. 1998 Bonds	31 Dec. 1998 Shares	31 Dec. 1999 Bonds	31 Dec. 1999 Shares
Breakdown according to remaining term to maturity				
● not more than one year	7 695 317	-	10 833 380	-
● more than one year	36 539 347	-	35 561 217	-
Listing and market value				
Carrying value, unlisted securities	5 054 563	122 701	5 250 860	17 943
Carrying value, listed securities	39 180 101	2 172 873	41 193 737	3 183 927
Market value, listed securities	40 982 729	2 822 784	41 256 240	3 564 861
Unrealized gains	1 802 627	649 911	62 503	380 934
Gross, net and write-downs				
Gross amount outstanding	39 954 354	1 448 388	42 778 605	1 244 533
Write-downs	-23 519	-30 070	-17 480	-16 445
Net amount outstanding	**39 930 835**	**1 418 318**	**42 761 125**	**1 228 089**

Movements

	1998 Bonds	1998 Shares	1999 Bonds	1999 Shares
Acquisition cost, investment portfolio				
Opening balance, 1 January	38 415 356	1 022 570	39 954 354	1 448 388
● Acquisitions	26 784 091	1 139 332	28 201 135	614 924
● Carrying value, transfers	-25 095 874	-742 431	-25 537 506	-812 313
● Accrued (discounts) premiums (Art. 35ter §4 and 5 of Royal Decree of 23 Sept. 1992)	-165 276	0	-89 472	0
● Translation differences	-26 785	-6	1 051 729	-704
● Transferred from one heading to another	0	24	-5 912	-1 302
● Changes in the scope of consolidation	43 090	29 470	-795 723	-4 467
● Other movements	-249	-571	0	7
Closing balance, 31 December	**39 954 354**	**1 448 388**	**42 778 605**	**1 244 533**
Write-downs, investment portfolio				
Opening balance, 1 January	6 371	6 926	23 519	30 070
● Movements with an impact on results				
- Increase	19 354	24 265	7 172	11 997
- Decrease	-2 792	-1 475	-16 816	-23 824
● Movements without an impact on results				
- Write-offs	-724	-583	-4 604	-2 923
- Translation differences	-456	-23	1 912	32
- Change in the scope of consolidation and reclassification	1 766	959	6 296	1 093
Closing balance, 31 December	**23 519**	**30 070**	**17 480**	**16 445**

The securities portfolio expanded by 7.5% to 52.1 billion euros, with roughly 90% of this figure accounted for by the investment portfolio and the remainder by the trading portfolio.

The modest rise in the portfolio of fixed-income securities was related to the policy of limiting balance sheet growth, among other things. Moreover, the duration of the portfolio - especially in the first half of 1999 - was shortened slightly to limit the risk profile of the bank's balance sheet in view of the mounting long-term interest rates. Within the portfolio itself, there was a distinct shift away from Belgian government securities to securities of other public and non-public issuers located in the euro zone, a development that is clearly linked to the adjustments made to the portfolio following the launch of the euro. The quality of the portfolio of fixed-income securities is excellent, with approximately 98.5% of the portfolio being invested in the securities of countries with at least an 'AA-' rating. The existing write-downs remain limited to less than 1 basis point of the portfolio.

The share portfolio grew by 39.5% to 3.2 billion euros, with the main growth occurring at KBC Derivatives (468 million euros) and at KBC Financial Products (645 million euros), a subsidiary included in the scope of consolidation for the first time. As far as the breakdown of the share portfolio is concerned, the investment portfolio is largely concentrated at KBC Bank, Centea and CBC Banque, and the trading portfolio at KBC Securities, KBC Derivatives and KBC Financial Products. At the close of 1999, unrealized gains on shares in the investment portfolio came to 380.9 million euros.

Note 6: Financial fixed assets, banking

Financial fixed assets, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**492 399**	**468 454**	**1 188 417**	**153.7%**
Participating interests	488 888	427 671	1 174 745	174.7%
Subordinated loans	3 510	40 782	13 672	-66.5%
Breakdown of participating interests				
Companies consolidated according to the equity method	3 533	64 133	741 978	1 056.9%
• Participating interests in credit institutions	0	0	676 361	-
• Participating interests in other financial institutions	3 273	63 937	65 543	2.5%
• Other participating interests	261	197	74	-62.3%
Other participating interests	485 355	363 538	432 767	19.0%
• Participating interests in credit institutions	187 237	188 238	113 779	-39.6%
• Other participating interests	298 118	175 301	318 988	82.0%
Breakdown of subordinated loans and advances				
Other participating interests	3 510	40 782	13 672	-66.5%
• to credit institutions	0	18 407	0	-100.0%
• to other financial institutions	358	22 376	13 672	-38.9%
• to other companies in which a participating interest is held	3 152	0	0	-
Listing and market value (1)				
Carrying value, unlisted securities	163 094	202 565	279 785	38.1%
Carrying value, listed securities	325 794	225 106	894 960	297.6%
Market value, listed securities	708 965	731 734	1 433 644	95.9%
Unrealized gains	383 171	506 628	538 684	6.3%

(1) Market value after deduction of goodwill still present (not yet written off) under 'Vbis Imputed goodwill on consolidation' on the liabilities side of the balance sheet (see valuation rules).

Movements

(in thousands of EUR)	1998		1999	
	Consolidated according to the equity method	Other	Consolidated according to the equity method	Other
Acquisition cost, participating interests				
Opening balance, gross amount 1 January	3 533	502 133	64 133	380 624
• Acquisitions	2 606	83 725	522 088	138 323
• Carrying value, transfers	0	-15 026	-4 845	-15 428
• Share in the result for the period	-151	-	100 456	-
• Translation differences	-3	-210	3 800	-1
• Transferred from one heading to another	0	-187 046	74 329	-74 329
• Change in uncalled amounts	-	3 156	-	9 410
• Other movements	58 149	-6 108	-17 983	17 131
Closing balance, gross amount 31 December	**64 133**	**380 624**	**741 978**	**455 730**
Gross, net and write-downs, participating interests				
Gross amount outstanding	64 133	380 624	741 978	455 730
Write-downs	0	17 086	0	22 963
Net amount outstanding	**64 133**	**363 538**	**741 978**	**432 767**

Due to the expansion of the Group, financial fixed assets in the banking business went up considerably. The increase in participating interests consolidated according to the equity method was related to the upping of the stake in Crédit Commercial de France to 18.05% (16.13% of which was entrusted to the banking business) and in Kredyt Bank (to 48.6%), as well as the inclusion of both participations (which had been posted under the other financial fixed assets as at 31 December 1998) in the scope of consolidation.

Of the other movements in the financial fixed assets heading, the most important were the sale of half the participating interest of 7.27% in Kredietbank SA Luxembourgeoise to Almanij (an impact of 5 million euros), the gains posted on Irish Life following the exchange of its shares for Irish Life & Permanent shares (an impact of 66 million euros) and the capital increase at Telenet.

At the close of 1999, the unrealized gains on financial fixed assets amounted to 538.7 million euros, particularly on Crédit Commercial de France, Istituto Bancario San Paolo IMI di Torino and the remaining stake held in Kredietbank SA Luxembourgeoise.

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

(In)tangible fixed assets, goodwill on consolidation and other assets, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Intangible fixed assets and goodwill on consolidation	**90 318**	**120 331**	**142 080**	**18.1%**
Formation expenses, intangible fixed assets	28 465	57 568	89 016	54.6%
Goodwill on consolidation (1)	61 853	62 763	53 064	-15.5%
Tangible fixed assets	**921 408**	**1 114 293**	**1 510 163**	**35.5%**
Land and buildings	691 549	700 693	960 470	37.1%
Plant, machinery and equipment	101 050	98 265	123 420	25.6%
Furniture and vehicles	47 352	45 389	66 114	45.7%
Leasing and similar rights	2 051	1 206	2 974	146.6%
Other tangible fixed assets	74 299	266 513	346 813	30.1%
Assets under construction and advance payments	5 107	2 227	10 372	365.6%
Other assets	**6 064 788**	**6 537 135**	**9 732 590**	**48.9%**
Cash in hand, balances at central banks and post office banks	349 416	367 531	582 505	58.5%
Deferred charges and accrued income	5 159 132	5 284 248	8 438 112	59.7%
Other assets	556 240	885 357	711 972	-19.6%

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

The 54.6% rise in formation expenses and intangible fixed assets was accounted for primarily by changes in the scope of consolidation. Tangible fixed assets grew by 35.5% to 1 510 million euros, which has to do chiefly with the wider scope of consolidation and increased operational leasing activities.

(In)tangible fixed assets, banking

(in thousands of EUR)	Formation expenses and intangible fixed assets	Total tangible fixed assets	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
Acquisition cost								
Opening balance, 1 Jan. 1999	92 480	1 940 549	1 012 171	399 363	150 746	1 835	374 207	2 227
• Acquisitions	29 587	491 644	103 860	80 429	24 462	1 102	248 926	32 865
• Transfers and asset retirements	-19 546	-384 409	-38 572	-181 923	-9 504	-262	-131 037	-23 111
• Transferred from one heading to another	0	33 709	36 401	-3 649	3 439	0	251	-2 733
• Translation differences	3 262	13 643	6 310	4 505	2 001	30	607	190
• Other movements	30 318	385 439	273 847	85 726	24 490	1 550	-1 108	934
Closing balance, 31 Dec. 1999	**136 101**	**2 480 575**	**1 394 017**	**384 451**	**195 634**	**4 255**	**491 846**	**10 372**
Gains								
Opening balance, 1 Jan. 1999	-	116 284	116 242	-	42	-	-	-
• Recorded	-	249	249	-	-	-	-	-
• Written off	-	-25 059	-25 059	-	-	-	-	-
• Transferred from one heading to another	-	-33 709	-33 709	-	-	-	-	-
• Translation differences	-	-12	-12	-	-	-	-	-
Closing balance, 31 Dec. 1999	**-**	**57 753**	**57 711**	**-**	**42**	**-**	**-**	**-**
Depreciation and write-downs								
Opening balance, 1 Jan. 1999	34 911	942 541	427 720	301 099	105 399	629	107 694	-
• Recorded	21 685	237 816	64 971	88 787	18 046	347	65 665	-
• Written back due to redundancy	0	-622	0	0	-255	-86	-281	-
• Written off	-19 140	-243 449	-21 848	-187 039	-6 523	-55	-27 984	-
• Transferred from one heading to another	0	0	0	-1 284	-1 059	0	225	-
• Translation differences	889	5 254	385	3 666	969	-11	245	-
• Other movements	8 740	86 626	20 030	55 803	10 867	457	-531	-
Closing balance, 31 Dec. 1999	**47 085**	**1 028 166**	**491 258**	**261 032**	**129 562**	**1 281**	**145 033**	**-**
Net carrying value as at the end of the financial year	**89 016**	**1 510 162**	**960 470**	**123 419**	**66 114**	**2 974**	**346 813**	**10 372**

Note 8: Investments, insurance

Investments, insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Carrying value				
Investments	6 146 923	7 457 809	8 188 137	9.8%
• Land and buildings	151 296	150 324	144 854	-3.6%
• Companies consolidated according to the equity method	43 568	47 074	111 176	136.2%
• Other participating interests	320 661	28 013	42 163	50.5%
• Shares and other variable-yield securities	682 361	1 686 356	2 103 373	24.7%
• Bonds and other fixed-income securities	4 318 044	4 939 140	5 344 861	8.2%
• Participation in investment pools	31 593	38 260	38 971	1.9%
• Loans guaranteed by mortgages and other loans	372 516	341 846	206 914	-39.5%
• Deposits with ceding companies	101 610	110 314	110 503	0.2%
• Other	125 274	116 483	85 320	-26.8%
Investments for the benefit of life assurance policyholders who bear the investment risk	30 285	211 043	1 195 446	466.4%
Total carrying value, investments (incl. unit-linked life assurance)	**6 177 209**	**7 668 851**	**9 383 582**	**22.4%**
Market value				
Investments	7 733 025	9 802 370	10 061 378	2.6%
• Land and buildings	228 381	237 380	235 674	-0.7%
• Companies consolidated according to the equity method	42 760	69 899	204 514	192.6%
• Other participating interests	1 015 306	117 853	113 395	-3.8%
• Shares and other variable-yield securities	1 091 033	3 192 816	3 519 520	10.2%
• Bonds and other fixed-income securities	4 724 431	5 574 414	5 543 060	-0.6%
• Participation in investment pools	31 593	39 114	39 480	0.9%
• Loans guaranteed by mortgages and other loans	372 516	341 846	206 914	-39.5%
• Deposits with ceding companies	101 610	110 314	110 503	0.2%
• Other	125 395	118 733	88 318	-25.6%
Investments for the benefit of life assurance policyholders who bear the investment risk	30 285	211 043	1 195 446	466.4%
Total market value, investments (incl. unit-linked life assurance)	**7 763 311**	**10 013 412**	**11 256 824**	**12.4%**
Unrealized gains				
• Participating interests, shares and other variable-yield securities	1 102 508	1 619 126	1 580 716	-2.4%
• Bonds and other fixed-income securities	406 387	635 274	198 199	-68.8%
• Other	77 207	90 162	94 327	4.6%
Total unrealized gains	**1 586 102**	**2 344 561**	**1 873 242**	**-20.1%**

Investments, insurance

(in thousands of EUR)	Land and buildings	Participating interests in affiliated companies	Participating interests in companies linked by participating interests	Debt securities issued by and loans and advances to companies linked by participating interests	Participating interests in companies consolidated according to the equity method	Shares, participating interests and other variable-yield securities	Bonds and other fixed-income securities
Acquisition cost							
Opening balance, 1 Jan. 1999	261 405	7 688	25 243	7 936	47 074	1 755 492	4 954 435
• Acquisitions	4 562	390	12 883	0	101 427	1 956 749	987 816
• Transfers and asset retirements	-6 414	-10	-947	2 979	0	-1 465 913	-635 085
• Transferred from one heading to another	0	802	-676	-4 641	65 662	-97 427	35 272
• Other movements	9	0	0	0	-53 573	917	8 915
Closing balance, 31 Dec. 1999	**259 562**	**8 871**	**36 503**	**6 273**	**160 589**	**2 149 818**	**5 351 352**
Gains							
Opening balance, 1 Jan. 1999	0	0	0	0	0	1 586	0
• Written off	0	0	0	0	0	-63	0
• Transferred from one heading to another	0	0	0	0	0	-1 522	0
Closing balance, 31 Dec. 1999	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Depreciation and write-downs							
Opening balance, 1 Jan. 1999	111 081	1 179	705	0	0	21 661	23 230
• Recorded	8 493	0	0	0	0	566	1 835
• Written back	-482	-9	-1	0	0	-3 249	-2 309
• Written off	-4 077	0	3	0	0	-1 377	-9 991
• Transferred from one heading to another	0	-967	967	0	0	-401	0
• Other movements	-309	0	0	0	0	0	0
Closing balance, 31 Dec. 1999	**114 707**	**203**	**1 674**	**0**	**0**	**17 201**	**12 764**
Uncalled amounts							
Opening balance, 1 Jan. 1999	0	0	3 034	0	0	2 014	0
• Movements during the financial year	0	0	-1 700	0	0	310	0
Closing balance, 31 Dec. 1999	**0**	**0**	**1 334**	**0**	**0**	**2 324**	**0**
Net carrying value as at the end of the financial year	**144 854**	**8 667**	**33 495**	**6 273**	**160 589**	**2 130 294**	**5 338 588**

Investments in the insurance business expanded by 22.4% to 9.4 billion euros and represent 92% of insurance assets. This increase has to do mainly with investments made for the successful unit-linked life assurance products. These investments climbed from 2.75% of total investments at the close of 1998 to 12.7% at the end of 1999.

The growth of 64 million euros in the 'Investments in companies consolidated according to the equity method and participating interests' heading was accounted for primarily by the inclusion in the consolidated accounts of the 1.6% participating interest in CCF. Within the framework of integration following the merger, KBC Insurance's annuity loan portfolio was sold to KBC Bank as at 1 July 1999, resulting in the amount of mortgage loans falling from 319.3 million euros in 1998 to 195.7 million euros at the close of 1999. At the end of last year, other loans amounted to 11.2 million euros.

The proportion of 'Bonds and other fixed-income securities' in the carrying value of the investment portfolio (not for unit-linked life assurance) remained virtually unchanged at 65%. However, the increase in long-term interest rates caused unrealized gains on fixed-income securities to fall from 635.3 million euros at the close of 1998 to 198.2 million euros at the end of 1999. An in-depth risk/return analysis lay behind the recasting of the investment strategy, whereby the proportion of shares (including participations) in the carrying value of the portfolio (not for unit-linked life assurance) went up by 3.94 percentage points to 27.56% and the portfolio was given a broader European spread. At the close of 1999, unrealized gains on shares (including participations) came to 1 580.7 million euros, down slightly on the corresponding figure at the end of 1998.

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

(In)tangible fixed assets, goodwill on consolidation, debtors and other assets, insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Debtors	**228 448**	**274 419**	**258 996**	**-5.6%**
Arising out of direct insurance operations	138 538	139 660	135 311	-3.1%
Arising out of reinsurance operations	36 037	51 065	58 947	15.4%
Other debtors and called capital as yet unpaid	53 873	83 694	64 739	-22.6%
Other assets	**234 628**	**260 722**	**269 851**	**3.5%**
Deferred charges and accrued income	169 539	194 409	203 883	4.9%
Other assets	65 088	66 313	65 968	-0.5%
Intangible fixed assets and goodwill on consolidation	**63 792**	**92 625**	**83 426**	**-9.9%**
Formation expenses, intangible fixed assets	3 675	78 597	71 146	-9.5%
Goodwill on consolidation (see Note 11: Capital and reserves, Group)	60 117	14 027	12 280	-12.5%

Formation expenses and intangible fixed assets

(in thousands of EUR)	
Acquisition cost	
Opening balance, 1 Jan. 1999	109 401
• Acquisitions	5 425
• Transfers and asset retirements	-4
• Other movements	179
Closing balance, 31 Dec. 1999	**115 000**
Depreciation and write-downs	
Opening balance, 1 Jan. 1999	30 803
• Recorded	14 703
• Written back	-521
• Other movements	-1 132
Closing balance, 31 Dec. 1999	**43 854**
Net carrying value	**71 146**

Note 10: Financial fixed assets, holding-company activities

Financial fixed assets, holding-company activities

(in thousands of EUR)	31 Dec. 1999
Total	**285 435**
Companies consolidated according to the equity method	10 443
● Participating interests	10 443
Other participating interests	274 993
● Subordinated loans and advances	274 993
Breakdown of participating interests	
Participating interests in credit institutions	10 443
Listing and market value	
Carrying value, listed securities	10 443
Market value, listed securities	14 588
Unrealized gains	4 145

The financial assets in respect of holding-company activities include chiefly the 0.32% participating interest in CCF and the Automatically Convertible Bond loan (ACB) in the amount of 250 million euros granted by the KBC Bank and Insurance Holding Company to KBC Bank. This last has been eliminated in the assets item, 'Eliminations'. On the liabilities side, this loan has been included under the 'Subordinated liabilities' heading of the banking business and eliminated under the 'Eliminations' item of the 'Subordinated liabilities' heading (see Note 13). On balance, therefore, this subordinated loan does not appear on either the assets or liabilities side.

Note 11: Capital and reserves, Group

a) Reconciliation between the capital and reserves of KBC Bank, KBC Insurance and the KBC Bank and Insurance Holding Company

The consolidated own funds of the KBC Bank and Insurance Holding Company are lower than the sum of the consolidated own funds of KBC Bank and KBC Insurance stated under section '4 Solvency', owing to *inter alia* the elimination of intragroup transactions, own shares and the non-consolidated result of the KBC Bank and Insurance Holding Company.

b) Goodwill on consolidation

The goodwill paid on acquisitions purchased after 1 January 1999 is deducted directly from capital and reserves (see 'Changes to valuation rules'). The amount of goodwill that has been deducted, after the theoretical depreciation charges on that goodwill have been subtracted, is included under liabilities heading 'Vbis Imputed goodwill on consolidation'. The goodwill deducted comes to 1 634 million euros, with 1 520 million euros of this amount being entered under 'Vbis Imputed goodwill on consolidation' and 114 million euros being deducted from the reserves. This last amount constitutes the theoretical depreciation charges on this goodwill which would have been posted to the accounts if the BFC had not allowed KBC to derogate from the general rule (for the relevant explanation, please see the valuation rules). The goodwill deducted related mainly to Crédit Commercial de France (728 million euros), Československá Obchodní Banka (ČSOB, 667 million euros), Kredyt Bank (85 million euros), IIB and ILFG (65 million euros) and KBC Financial Products (61 million euros).

The capitalized goodwill on consolidation relates to goodwill that has not yet been written off on acquisitions made prior to 1 January 1999. The amount entered under the heading 'Increase in percentage of capital held' concerns the additional goodwill on acquisitions made before 1 January 1999, which are being paid for over time, based on the company's performance.The liabilities heading 'Goodwill on consolidation' contains negative goodwill.

Goodwill on consolidation

(in thousands of EUR)	Opening balance, 1 Jan. 1999	Increase in percentage of capital held	Decrease in percentage of capital held	Amounts written off	Other movements	Closing balance, 31 Dec. 1999
BANKING						
Goodwill on consolidation						
Capitalized goodwill	62 763	1 250	-1 759	-9 190	0	53 064
Negative goodwill	6 526	-7	0	0	-4 513	2 006
Imputed goodwill	0	-816 056	0	32 717	0	- 783 339
Goodwill via application of the equity method						
Negative goodwill	0	0	0	0	4 684	4 684
Imputed goodwill	0	-780 029	0	78 002	0	- 702 027
INSURANCE						
Goodwill on consolidation						
Capitalized goodwill	11 701	0	0	-1 494	0	10 207
Negative goodwill	4 783	0	0	0	0	4 783
Imputed goodwill	0	-1 568	0	157	0	-1 411
Goodwill via application of the equity method						
Capitalized goodwill	2 326	0	0	-254	0	2 073
Negative goodwill	5 350	0	-17	0	0	5 333
Imputed goodwill	0	-21 200	0	1 842	0	-19 358
HOLDING-COMPANY ACTIVITIES						
Goodwill via application of the equity method						
Imputed goodwill	0	-15 480	0	1 548	0	-13 932
TOTAL						
Capitalized goodwill, banking	62 763	1 250	-1 759	-9 190	0	53 064
Capitalized goodwill, insurance	14 027	0	0	-1 748	0	12 280
Negative goodwill	16 659	-7	-17	0	171	16 806
Imputed goodwill	0	-1 634 333	0	114 266	0	-1 520 067

c) Changes in capital and reserves

Consolidated capital and reserves

(in thousands of EUR)	Opening balance, 1 Jan.	Capital increase and conversion of MCBs	Retained profit	Write-off of imputed goodwill on consoli-dation	Translation differences	Other movements	Closing balance, 31 Dec.
1998							
Capital	576 987	3 962	0	0	0	-251	580 697
Share premium account	1 858 121	49 495	0	0	0	-6 034	1 901 582
Revaluation reserve	12 495	0	0	0	0	-875	11 620
Reserves and profit brought forward	2 247 700	0	473 721	0	0	257	2 721 678
Goodwill on consolidation (negative goodwill)	16 959	0	0	0	0	-300	16 659
Translation differences	3 609	-	-	-	-13 304	-	-9 695
Capital and reserves	**4 715 871**	**53 457**	**473 721**	**0**	**-13 304**	**-7 203**	**5 222 542**

(in thousands of EUR)	Opening balance, 1 Jan.	Capital increase and conversion of MCBs	Retained profit	Write-off of imputed goodwill on consolidation	Translation differences	Other movements	Closing balance, 31 Dec.
1999							
Capital	580 697	1 699	-	-	-	-	582 397
Share premium account	1 901 582	26 047	-	-	-	-	1 927 629
Revaluation reserve	11 620	-	-	-	-	-505	11 115
Reserves and profit brought forward	2 721 678	-	602 735	-114 266	-	-454	3 209 692
Goodwill on consolidation (negative goodwill)	16 659	-	-	-	-	146	16 805
Imputed goodwill on consolidation	0	-	-	-1 520 067	-	-	-1 520 067
Translation differences	-9 695	-	-	-	-1 702	-	-11 397
Capital and reserves	**5 222 542**	**27 746**	**602 735**	**-1 634 333**	**-1 702**	**-814**	**4 216 174**

By having recourse to the derogation authorized by the BFC (see 'Changes to valuation rules'), whereby goodwill on consolidation relating to acquisitions made after 1 January 1999 could be deducted from consolidated capital and reserves, the narrow measure of consolidated own funds declined by 1 billion euros to 4.2 billion euros, despite the sizeable amount of profit retained as usual. The Tier-1 capital, which is important in the banking business for solvency considerations, was not affected by this derogation allowed by the BFC, since goodwill on consolidation is deducted from Tier-1 capital anyway. Despite the negative impact the sizeable amount of goodwill on consolidation had, the Tier-1 ratio in the banking business edged up to 7.4% (see section '4 Solvency').

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

d) Reserves and profit brought forward

Reserves and profit brought forward

(in thousands of EUR)	1999
Opening balance, 1 Jan. 1999	2 721 678
Profit (Group interests)	969 746
Dividends	-365 650
Directors	-1 362
Theoretical depreciation, goodwill on consolidation	-114 266
Other	-454
Closing balance, 31 Dec. 1999	**3 209 692**

e) Statement of own shares

Statement of own shares as at 31 Dec. 1999

Held in portfolio by	Quantity	As a % of the issued shares	Carrying value (in thousands of EUR)
KBC Insurance NV	7 082 060	2.38%	83 234 517
Fidea NV	1 240 178	0.42%	59 960 648
Centea NV	817 380	0.27%	12 577 063
KBC Derivatives NV (trading portfolio)	1 035 255	0.35%	55 386 143
Secura NV	92 570	0.03%	3 837 589
KBC Securities NV (trading portfolio)	281 275	0.09%	15 048 212
Maatschappij voor Brandherverzekering CV	2 690	0.0009%	39 381
VITIS Life Luxembourg SA	38 000	0.01%	1 435 576

The KBC Bank and Insurance Holding Company (formerly Kredietbank) shares owned by KBC Insurance NV and a few of its subsidiaries were held in the investment portfolio of KBC Insurance at the time of the merger that led to the establishment of the KBC Bank & Insurance Group. At the end of 1998, KBC Insurance and its subsidiaries owned 2.97% of the number of KBC Bank and Insurance Holding Company shares; at the end of 1999, this percentage fell to 2.84%. KBC Insurance and Centea plan to dispose of their KBC Bank and Insurance Holding Company shares in due course.

Note 12: Third-party interests, Group

Third-party interests, Group

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**188 139**	**100 372**	**1 750 936**	**1 644.5%**
Third-party interests	188 139	100 372	258 683	157.7%
Preference shares	0	0	1 492 253	-

The 'Third-party interests' heading on the balance sheet showed strong growth in 1999, owing to five issues of non-cumulative preference shares by KBC Bank for a total amount of 1.5 billion euros. Two of the tranches were placed in the European retail markets (mainly in the Netherlands and Spain) and three with European and American institutional investors.

Third-party interests in the narrow sense of the term went up by 158.3 million euros to 258.7 million euros, which on balance roughly corresponds with the impact of the consolidation of ČSOB, on the one hand (17.65% third-party interests), and the increase in the stake held in Irish Intercontinental Bank from 75% to 100%, on the other.

Note 13: Subordinated liabilities, Group

Subordinated liabilities, Group

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**3 973 998**	**4 559 554**	**5 944 740**	**30.4%**
Convertible	244 895	890 323	886 451	-0.4%
Non-convertible	3 729 103	3 669 231	5 058 289	37.9%
Company				
Banking	3 972 636	4 580 643	6 219 570	35.8%
Insurance	20 575	21 815	21 815	0.0%
Eliminations	-19 214	-42 904	-296 644	591.4%
Banking	**3 972 636**	**4 580 643**	**6 219 570**	**35.8%**
Geographic breakdown				
Belgium	390 541	682 419	2 482 545	263.8%
Abroad	3 582 096	3 898 224	3 737 025	-4.1%
Euro zone	-	-	306 955	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	390 541	631 892	5 986 269	847.4%
In foreign currency	3 582 096	3 948 751	233 302	-94.1%

(in thousands of EUR)				
Breakdown according to remaining term to maturity (year maturing)	**2000**	**2001**	**2002**	**2003**
	350 711	268 156	799 563	494 438
	2004	**2005**	**2006**	**2007**
	838 214	1 367 480	422 297	145 543
	2008	**2009**	**2010**	**2011**
	296 812	238 611	0	166 778
	2012	**2013**	**2014**	**perpetual**
	0	0	6 037	824 930

The increase in subordinated liabilities was accounted for solely by the banking business, which reinforced Tier-2 and Tier-3 capital. For an overview of new issues, please see section '4 Solvency'. The higher amount of 'Eliminations' relates to the 250 million euro subordinated loan redeemable in shares which the KBC Bank and Insurance Holding Company granted to KBC Bank (see Note 10).

Note 14: Fund for General Banking Risks, banking

Fund for General Banking Risks, banking

(in thousands of EUR)	1998	1999
Opening balance, 1 Jan.	900 657	1 604 057
● Transfers to the fund via the profit and loss account	206 958	238 839
● Transfer from the Internal Reserve for Latent Risks	405 447	0
● Changes in the scope of consolidation	93 166	38 906
● Translation differences	-282	-231
● Other movements	-1 888	-56 096
Closing balance, 31 Dec.	**1 604 057**	**1 825 476**

The Fund for General Banking Risks (FGBR) is a contingency fund set up to safeguard the institution's solvency against future risks inherent in the business of banking which are not determinable at the present time. In other words, it is set aside over and above the requisite write-downs and provisions taken on a case-by-case and portfolio basis for loans and advances, securities, liabilities and charges. For the purpose of calculating the regulatory capital adequacy ratio, the Fund for General Banking Risks qualifies as Tier-1 capital. This fund is formed primarily by diverting a portion of the gains realized on shares and financial fixed assets from the consolidated results to the FGBR via the profit and loss account. In 1998, it was also raised substantially by the addition of a large portion of the Internal Reserve for Latent Risks, a comparable contingency fund, which had previously not been disclosed (see also Note 30).
Changes in the scope of consolidation affected the Fund for General Banking Risks primarily through the full consolidation of the Antwerpse Diamantbank; the 'Other movements' relate for the most part to the allocation to the Fund of goodwill in respect of Irish Intercontinental Bank and the Antwerpse Diamantbank.

Note 15: Amounts owed to credit institutions, banking

Amounts owed to credit institutions, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**50 091 280**	**36 066 983**	**28 871 450**	**-20.0%**
Amounts owed as a result of the rediscounting of trade bills	230 916	131 364	144 274	9.8%
Geographic breakdown				
Belgium	14 263 608	4 069 619	3 191 064	-21.6%
Abroad	35 827 672	31 997 364	25 680 386	-19.7%
Euro zone	0	0	5 008 042	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	15 083 369	6 882 344	11 672 737	69.6%
In foreign currency	35 007 912	29 184 639	17 198 713	-41.1%
Breakdown according to remaining term to maturity				
Repayable on demand	3 539 365	3 855 015	1 436 909	-62.7%
With agreed maturity dates or periods of notice	46 551 916	32 211 968	27 434 541	-14.8%
• not more than three months	34 001 360	25 922 258	20 610 177	-20.5%
• more than three months but not more than one year	10 251 175	5 419 209	4 018 228	-25.9%
• more than one year but not more than five years	2 153 822	649 150	819 880	26.3%
• more than five years	105 505	120 376	1 924 562	-
• undated	40 054	100 976	61 694	-38.9%

Amounts owed to credit institutions were down 20% to 28.9 billion euros, which is naturally related to the further scaling down of loans and advances to credit institutions with a view to curtailing risk assets and improving the return on capital employed.

Note 16: Amounts owed to customers and debts represented by securities, banking

Amounts owed to customers and debts represented by securities, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**78 519 898**	**84 962 323**	**93 119 240**	**9.6%**
Amounts owed to customers	54 977 411	63 516 382	71 882 057	13.2%
Debts represented by securities	23 542 487	21 445 942	21 237 183	-1.0%
Amounts owed to customers	**54 977 411**	**63 516 382**	**71 882 057**	**13.2%**
Geographic breakdown				
Belgium	39 676 745	44 220 666	50 817 409	14.9%
Abroad	15 300 666	19 295 716	21 064 647	9.2%
Euro zone	-	-	7 186 869	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	38 687 212	42 830 869	58 134 913	35.7%
In foreign currency	16 290 199	20 685 512	13 747 144	-33.5%

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Breakdown according to remaining term to maturity				
Repayable on demand	13 393 447	18 361 216	15 998 538	-12.9%
With agreed maturity dates or periods of notice	41 583 964	45 155 166	55 883 519	23.8%
● not more than three months	13 592 932	16 085 247	22 695 517	41.1%
● more than three months but not more than one year	5 792 615	7 084 746	10 744 343	51.7%
● more than one year but not more than five years	2 830 171	1 274 749	2 383 424	87.0%
● more than five years	820 249	331 301	250 649	-24.3%
● undated	18 547 997	20 379 122	19 809 586	-2.8%
Debts represented by securities	**23 542 487**	**21 445 942**	**21 237 183**	**-1.0%**
Geographic breakdown				
Belgium	14 604 136	13 062 967	12 445 745	-4.7%
Abroad	8 938 351	8 382 974	8 791 438	4.9%
Euro zone	-	-	2 475 737	-
Monetary breakdown				
In euros (31 Dec. 1997 and 31 Dec. 1998: in Belgian francs)	14 296 494	13 108 937	14 363 527	9.6%
In foreign currency	9 245 993	8 337 004	6 873 656	-17.6%
Breakdown according to remaining term to maturity				
With agreed maturity dates or periods of notice	23 542 487	21 445 941	21 237 183	-1.0%
● not more than three months	6 671 140	6 568 547	8 999 712	37.0%
● more than three months but not more than one year	5 161 025	4 280 700	3 722 131	-13.0%
● more than one year but not more than five years	10 681 418	9 750 124	8 082 220	-17.1%
● more than five years	972 168	648 964	377 778	-41.8%
● undated	56 736	197 606	55 342	-72.0%
Amounts owed to customers and debts represented by securities, breakdown by type	**78 519 898**	**84 964 323**	**93 119 240**	**9.6%**
Total amounts owed to customers	**54 977 411**	**63 516 382**	**71 882 057**	**13.2%**
Demand deposits	9 622 219	12 205 510	13 752 615	12.7%
Time deposits	24 837 672	28 620 213	30 509 108	6.6%
Savings deposits	17 785 058	18 353 149	20 109 841	9.6%
Special deposits	593 674	593 398	625 569	5.4%
Other deposits	2 138 787	3 744 112	6 884 923	83.9%
Total debts represented by securities	**23 542 487**	**21 445 942**	**21 237 183**	**-1.0%**
Savings certificates	13 620 581	11 941 831	9 890 143	-17.2%
Bonds	4 833 493	3 290 063	3 489 079	6.0%
Certificates of deposit	5 088 413	6 214 048	7 857 961	26.5%

Geographic breakdown	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Total amounts owed to customers and debts represented by securities	**57 283 633**	**27 678 690**	**63 263 155**	**29 856 085**
Total amounts owed to customers	**44 220 666**	**19 295 716**	**50 817 409**	**21 064 647**
Demand deposits	7 688 581	4 516 929	10 901 549	2 851 066
Time deposits	15 307 584	13 312 629	17 382 204	13 126 904
Savings deposits	17 938 659	414 490	19 457 026	652 815
Special deposits	543 492	49 906	581 677	43 892
Other deposits	2 742 350	1 001 762	2 494 953	4 389 970
Total debts represented by securities	**13 062 967**	**8 382 974**	**12 445 745**	**8 791 438**
Savings certificates	11 896 840	44 991	9 872 213	17 930
Bonds	35 734	3 254 329	436 154	3 052 925
Certificates of deposit	1 130 394	5 083 654	2 137 378	5 720 583

Domestic customer deposits

As in previous years, investors' preference for equity investments, given the low interest rates and bullish sentiment on stock markets worldwide, was a key factor influencing domestic **customer deposits** (+10.4%). Under these conditions, demand deposits, which went up by 41.8%, are being used more than ever as a place to park funds until better investment opportunities crop up. On top of this, given that the interest spread vis-à-vis short-term time deposits is relatively narrow, companies are also less inclined to put their cash into time deposit accounts. As to savings deposits, they went up by 8.5%, but the outflow of funds from savings deposits (-17%) continued unabated. On account of the low level of interest rates, not many savings certificates that reach maturity are replaced with new ones. Instead, the monies are generally invested in investment funds or savings deposits. Most of the monies put into investment funds offering a capital guarantee flow back to KBC Bank in the form of time deposits. Technically, these investment funds are usually a combination of derivatives and time deposit accounts, which are to a certain extent opened with KBC.

Customer deposits abroad

The 7.9% increase in customer deposits abroad is attributable exclusively to ČSOB's being included in the scope of consolidation.

Note 17: Provisions and deferred taxes, Group

Provisions and deferred taxes, Group

(in thousands of EUR)	Opening balance, 1 Jan. 1999	Allocations	Utilization and write-backs	Total movements with an impact on results	Change in consolidation, perimeter and reclassification	Closing balance, 31 Dec. 1999
Banking						
Pensions	85 910	16 705	-29 933	-13 228	-141	72 542
Future charges for buildings	30 208	5 000	-10 816	-5 816	0	24 392
Litigation (VAT, legal, other)	64 428	5 486	-10 039	-4 553	0	59 875
Operational risks	37 184	45 594	0	45 594	0	82 778
Restructuring expenses	97 508	0	-30 347	-30 347	25 649	92 810
EUR/Y2K	3 458	0	-3 279	-3 279	0	179
Car leasing	4 479	3 530	-1 160	2 370	0	6 849
IT, subsidiaries	49 747	0	-243	-243	-28 075	21 429
Other provisions	53 237	29 971	-24 034	5 937	88	59 262
Subtotal, provisions for liabilities and charges	**426 159**	**106 287**	**-109 851**	**-3 564**	**-2 479**	**420 115**
Taxation	52 066	3 056	-82	2 974	704	55 743
Commitment credit	24 491	38 337	-63 713	-25 375	123 963	123 079
Total provisions	**502 716**	**147 680**	**-173 646**	**-25 966**	**122 188**	**598 938**
Deferred taxes	6 832	1 924	-1 358	566	3 325	10 723
Total provisions and deferred taxes	**509 548**	**149 604**	**-175 004**	**-25 400**	**125 513**	**609 661**
Insurance						
Taxation	60 003	15	-2 690	-2 675	0	57 329
Restructuring expenses	24 432	11 788	-7 295	4 494	0	28 925
EUR/Y2K	9 998	0	-488	-488	0	9 510
Financial risks	0	71 769	0	71 769	0	71 769
Other provisions	14 056	389	-4 713	-4 324	0	9 733
Total	**108 490**	**83 961**	**-15 186**	**68 776**	**0**	**177 266**

At the close of 1999, the provisions and deferred taxes on the liabilities side of the balance sheet came to 786.9 million euros, compared with 618 million euros a year earlier.

In the **banking business**, the increase was accounted for chiefly by the changes in the scope of consolidation. Transfers to and from provisions for liabilities and charges via the profit and loss account were negligible, on balance. The main items offsetting each other were the write-back of provisions for restructuring expenses (30.3 million euros), the write-back of provisions for early retirement (17 million euros) and the provisioning of 45.6 million euros for operational risks.

In the **insurance business**, the 59.5 million euro tax provision set aside in 1998 for the disputed tax assessment on the interest buffer built into the technical life assurance provisions at the former ABB was adjusted to take account of the current situation. The provision for merger-related and restructuring expenses currently stands at 28.9 million euros, having gone up by 4.5 million euros, the resultant of using 7.3 million euros to make up for the expense of IT outsourcing and allocating 11.8 million euros for early retirement schemes on the basis of definitive data. The surplus funds in the provision for the transition to the year 2000 were transferred to the provision for the conversion to the euro, bringing it to 9.5 million euros. A new provision was also set aside for financial risks and currently comes to 71.8 million euros. It was introduced to cope with the risk of a loss or charges being incurred as a result of positions held in foreign currencies, securities or other financial instruments. The provision will be topped up over the next few years until an as-yet-unspecified required amount is reached. This amount will naturally vary from year to year depending on the financial risk position held.

Note 18: Other liabilities, banking

Other liabilities, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**5 940 361**	**7 312 795**	**9 795 294**	**33.9%**
Accrued charges and deferred income	4 370 355	5 334 264	7 837 987	46.9%
Other	1 570 006	1 978 531	1 957 307	-1.1%

Note 19: Technical provisions, insurance

Technical provisions, insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Gross				
Technical provisions	5 617 204	6 598 366	7 045 410	6.8%
• Provision for unearned premiums and unexpired risk	231 535	202 309	198 839	-1.7%
• Life assurance provision	3 413 150	4 162 741	4 467 156	7.3%
• Provision for claims outstanding	1 839 157	1 974 404	2 083 340	5.5%
• Provision for bonuses and rebates	25 302	22 199	22 321	0.5%
• Equalization and catastrophe provision	63 226	187 928	191 248	1.8%
• Other technical provisions	44 835	48 785	82 505	69.1%
For life assurance policyholders who bear the investment risk	30 285	210 779	1 195 446	467.2%
Total gross technical provisions	**5 647 490**	**6 809 145**	**8 240 856**	**21.0%**

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Reinsurers' share				
Technical provisions	221 198	229 611	221 414	-3.6%
• Provision for unearned premiums and unexpired risk	6 399	3 516	3 529	0.4%
• Life assurance provision	4 130	4 991	4 255	-14.7%
• Provision for claims outstanding	206 991	219 314	210 666	-3.9%
• Provision for bonuses and rebates	41	0	0	-
• Other technical provisions	3 637	1 791	2 964	65.5%
Total, reinsurers' share	**221 198**	**229 611**	**221 414**	**-3.6%**
Net				
Technical provisions	5 396 006	6 368 755	6 823 996	7.1%
• Provision for unearned premiums and unexpired risk	225 136	198 793	195 310	-1.8%
• Life assurance provision	3 409 020	4 157 750	4 462 901	7.3%
• Provision for claims outstanding	1 632 166	1 755 090	1 872 674	6.7%
• Provision for bonuses and rebates	25 261	22 199	22 321	0.5%
• Equalization and catastrophe provision	63 226	187 928	191 248	1.8%
• Other technical provisions	41 197	46 995	79 542	69.3%
For life assurance policyholders who bear the investment risk	30 285	210 779	1 195 446	467.2%
Total net technical provisions	**5 426 292**	**6 579 534**	**8 019 442**	**21.9%**
Secured by collateral security committed as a charge against the company's assets	372 987	364 758	345 921	-

Not taking unit-linked life assurance into account (for which the technical provisions were raised by 985 million euros), 455 million euros or 7.1% was added to the net technical provisions. KBC Insurance added a final 131.1 million euros to the interest buffer in the life business to bring it to a total of 366.9 million euros. In other words, it supplemented this buffer by adding the difference arrived at by calculating the technical provisions for life assurance offering a guaranteed rate of interest of 4.75% on the basis of a discount rate of 4% instead of 4.75%. The net provision for claims outstanding went up by 6.7%, which was entirely in keeping with the increase in premiums earned, net of reinsurance. Despite the utilization of 3.0 million euros in the reinsurance business on account of the December storms that swept France, the equalization and catastrophe provision still went up by 3.3 million euros. The sharp, 69% increase in the other technical provisions has to do with the setting aside of a millennium provision in the amount of 29.6 million euros.

Note 20: Other liabilities, insurance

Other liabilities, insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Creditors	**193 582**	**293 722**	**420 576**	**43.2%**
On account of direct insurance operations	49 301	66 569	68 614	3.1%
On account of reinsurance operations	14 912	6 212	22 596	263.8%
Other creditors	129 369	220 942	329 366	49.1%
Secured by collateral security committed as a charge against the company's assets	1 401	1 291	0	-100.0%
Accrued charges and deferred income	**26 112**	**10 878**	**11 739**	**7.9%**

Note 21: Financial liabilities, holding-company activities

During the course of the 1999 financial year, the KBC Bank and Insurance Holding Company issued commercial paper mainly in order to fund the capital increase of KBC Bank NV and to subscribe to an ACB issued by that banking subsidiary. As at 31 December 1999, the outstanding balance of commercial paper came to 1 015.7 million euros, which accounts for more or less all of the movement in the 'Financial liabilities, holding-company activities' heading.

Note 22: Eliminations and relationships with affiliated companies and with companies linked by participating interests which are not included in the consolidation or eliminated, Group

Eliminations and relationships with affiliated companies and with companies linked by participating interests which are not included in the consolidation or eliminated, Group

(in thousands of EUR)	Between the banking, insurance and holding-company activities		Affiliated companies		Companies linked by participating interests	
	Eliminations		Not eliminated		Not eliminated	
	31 Dec. 1998	31 Dec. 1999	31 Dec. 1998	31 Dec. 1999	31 Dec. 1998	31 Dec. 1999
Assets						
BANKING						
I Loans and advances to credit institutions	-	-	671 938	813 650	3	2 595
II Loans and advances to customers	356 355	372 497	107 780	82 545	98 263	158 825
III A Fixed-income	-	-	11 717	16 950	0	0
IV Financial fixed assets	13 138	10 659	0	0	0	3 013
VII Other assets	1 274	912	-	-	-	-
INSURANCE						
IX Investments	114 471	5 215	684	14 940	-	33 495
XII Debtors	-	-	14 271	2 316	161	1 513
XIII Other assets	78 930	106 582	-	-	-	-
HOLDING-COMPANY ACTIVITIES						
XV Financial fixed assets	-	274 993	-	-	-	-
XVII Other assets	45 527	58 226	-	-	-	-
TOTAL ASSETS	**609 695**	**829 085**	**806 390**	**930 401**	**98 427**	**199 441**
Liabilities						
IX Subordinated liabilities	42 904	296 644	54 741	-	-	-
BANKING						
XI Amounts owed to credit institutions	-	-	801 769	277 756	182	159
XII Amounts owed to customers	204 527	203 777	270 237	28 194	143 112	42 423
XIII Debts represented by securities	-	-	351 980	651 339	0	0
XV Other liabilities	4 635	13 308	-	-	-	-
INSURANCE						
XX Other liabilities	55 712	54 896	3 900	64 678	864	4 101

HOLDING-COMPANY ACTIVITIES						
XXII Financial liabilities	301 166	259 980	-	-	-	-
XXIII Other liabilities	751	481	-	-	-	-
Subtotal, excluding subordinated liabilities	**566 791**	**532 441**	**1 427 886**	**1 021 968**	**144 158**	**46 683**
TOTAL LIABILITIES	**609 695**	**829 085**	**1 482 627**	**1 021 968**	**144 158**	**46 683**
Profit and loss account						
BANKING						
C Net commission income	44 614	43 858	-	-	-	-

3.2 Results from ordinary activities, banking

Note 23: Net interest income, banking

Net interest income, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Net interest income	**1 828 049**	**1 864 144**	**2 056 647**	**10.3%**
Interest receivable and similar income	**8 026 792**	**8 273 861**	**8 437 037**	**2.0%**
Loans and advances to credit institutions	2 182 272	1 968 298	1 753 744	-10.9%
Loans and advances to customers	3 270 415	3 641 784	4 054 561	11.3%
Fixed-income securities, trading portfolio	183 089	223 025	294 616	32.1%
Fixed-income securities, investment portfolio	2 391 016	2 440 753	2 334 116	-4.4%
Interest payable and similar charges	**-6 198 743**	**-6 409 717**	**-6 380 391**	**-0.5%**
Amounts owed to credit institutions	-2 676 049	-2 620 284	-2 585 330	-1.3%
Amounts owed to customers	-1 776 689	-2 085 844	-2 292 752	9.9%
Debts represented by securities	-1 402 101	-1 269 310	-1 067 776	-15.9%
Subordinated liabilities	-283 228	-251 703	-290 461	15.4%
Net result, hedging operations	-60 676	-182 576	-144 072	-21.1%

Note 24: Income from variable-yield securities, banking

Income from variable-yield securities, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total income from variable-yield securities	**84 636**	**95 859**	**100 248**	**4.6%**
Shares and other variable-yield securities, trading portfolio	20 731	20 521	28 090	36.9%
Shares and other variable-yield securities, investment portfolio	38 828	56 561	45 285	-19.9%
Other income from financial fixed assets	25 077	18 777	26 874	43.1%

Net interest income (including dividends) went up in 1999 by 10% to 2 157 million euros, in line with the trend of previous years. In Belgium, net interest earnings, including dividends, rose only 1.1% to 1 574 million euros, mainly because the interest margin is still being squeezed. Abroad, there was an increase of a good 60% to 646 million euros, thanks to the consolidation of ČSOB and the nearly 29% growth in the foreign branches' net interest income. Much of the organic growth abroad is accounted for by the increase in lending in New York, London and Ireland. Net interest earnings were, however, adversely affected by the funding costs to the tune of 63 million euros paid for the new acquisitions (mainly CCF and ČSOB).

Note 25: Profit on financial transactions, banking

Profit on financial transactions, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**508 116**	**731 486**	**636 182**	**-13.0%**
On the trading of securities and other financial instruments	**197 389**	**153 162**	**170 561**	**11.4%**
On the disposal of investment securities	**310 727**	**578 325**	**465 621**	**-19.5%**
Fixed-income securities	150 025	196 767	54 540	-72.3%
On the securitization of receivables	0	0	4 408	-
Variable-yield securities	160 702	381 558	406 674	6.6%
● Generale Bank	-	74 102	0	-100%
● Generale Maatschappij	-	61 543	0	-100%
● Royale Belge	-	25 702	0	-100%
● Almanij & KBC Bank and Insurance Holding Company	-	3 722	20 591	453.2%
● ING	-	55 914	131 481	135.1%
● UCB	-	34 343	13 914	-59.5%
● Electrabel	-	33 916	24 225	-28.6%
● Fortis	-	18 120	42 430	134.2%
● PetroFina	-	3 385	36 263	971.2%
● Tractebel	-	5 125	90 045	1 656.9%
● Delhaize - De Leeuw	-	7 551	13 739	82.0%
● CBR	-	-	2 504	-
● Aegon	-	-	7 020	-
● Solvay	-	-	6 093	-
● Colruyt	-	-	5 454	-
● Dexia	-	-	5 837	-
● Other	-	58 135	7 079	-87.8%

Profit on financial transactions was down 13%, owing to the much lower level of gains realized on bonds (54.5 million euros, compared with the relatively high 196.8 million euros for the reference period). Because of the unfavourable conditions prevailing on the interest rate front, opportunities for realizing gains on the bond portfolio were limited; besides, selling bonds would undermine future interest earnings. Capital gains realized on shares went up by a modest 6.6% to 406.7 million euros. Profit on currency dealing and securities trading was up 11.4%, thanks to the consolidation of ČSOB and KBC Financial Products, the strong growth in KBC Securities and KBC Derivatives' businesses and the improved performance turned in by KBC Bank's dealing room in the second half of the year.

Note 26: Net commission income and other income, banking

Net commission income and other income, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total net commission income and other income	**531 252**	**731 668**	**974 415**	**33.2%**
Commission receivable	**590 723**	**838 855**	**1 050 236**	**25.2%**
Securities and asset management	369 597	548 995	653 827	19.1%
Commitment credit	73 090	75 593	85 381	12.9%
Payments	85 325	88 052	106 571	21.0%
Insurance	33 496	43 421	43 858	1.0%
Other	29 215	82 795	160 600	94.0%
Commission payable	**-149 499**	**-228 915**	**-293 840**	**28.4%**
Acquisition costs	-65 005	-86 779	-120 159	61.1%
Other commission payable	-84 494	-142 137	-173 681	12.5%
Other operating income	**90 029**	**121 728**	**218 018**	**79.1%**

The sustained strong growth in net commission and other operating income, particularly in the second half of the year, lay behind the favourable trend in gross operating income. KBC Bank's leading position on the fast-growing market in investment funds and the success of unit-linked life assurance products are an important source of recurring fee income. With regard to the operational leasing activities of KBC Lease, they experienced brisk volume growth, which boosted the 'Other operating income' item by a further 45 million euros.

In the banking business, income from branch sales of unit-linked life assurance products were offset by the lower earnings on single premium policies, which had met with considerable success in 1998. The higher commission income received on payment transactions was accounted for in full by the broader scope of consolidation. Revenue from international payments transactions was down due to the introduction of the euro and the decrease in payment fees.

The increase in net commission income was curtailed by commissions payable in the amount of 19.6 million euros on the 1.5 billion euro issue of preference shares.

Note 27: Share in the result of companies consolidated according to the equity method, banking

Share in the result of companies consolidated according to the equity method, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**-385**	**12 174**	**100 456**	**725.2%**
Crédit Commercial de France	0	0	72 560	-

The share in the result of companies consolidated according to the equity method will be included under gross operating income from now on (see the valuation rules). For the most part, this heading comprises the results derived from CCF, Kredyt Bank, Bank Card Company and Banksys.

Note 28: Details concerning the results of the banking operations

Details concerning the results of the banking operations

(in thousands of EUR)	31 Dec. 1998 Belgian branches and subsidiaries	31 Dec. 1998 Foreign branches and subsidiaries	31 Dec. 1999 Belgian branches and subsidiaries	31 Dec. 1999 Foreign branches and subsidiaries
A Interest receivable and similar income	5 922 342	2 351 519	5 097 542	3 339 495
B Income from variable-yield securities				
1 Shares and other variable-yield securities	71 725	5 356	70 144	5 059
2 Participating interests and shares constituting financial fixed assets	17 394	1 383	22 745	2 300
C Profit (Loss) on financial transactions				
1 on the trading of securities and other financial instruments	154 873	-1 711	24 909	145 652
2 on the disposal of investment securities	575 758	2 567	468 192	-2 571
D1 Commission receivable	701 370	137 485	793 680	256 556
D2 Other operating income	106 465	15 263	164 602	53 416

Geographic breakdown of heading 'B2 Participating interests and shares constituting financial fixed assets' in the profit and loss account

(in thousands of EUR)	Belgium	Germany	France	UK	Ireland	Italy
	3 916	25	1 135	113	1 317	7 586
	Luxemburg	**Netherlands**	**Panama**	**Portugal**	**Czech Republic**	**Total**
	8 709	1 747	26	390	81	**25 045**

Note 29: General administrative expenses and other charges, banking

General administrative expenses and other charges, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
General administrative expenses and other charges	**-1 875 378**	**-2 060 226**	**-2 524 449**	**22.5%**
Staff charges	**-1 117 078**	**-1 178 642**	**-1 369 274**	**16.2%**
Remuneration	-795 846	-833 647	-1 002 167	20.2%
Employer's social security contributions	-279 624	-288 085	-303 416	5.3%
Other staff charges	-37 041	-47 232	-52 223	10.6%
Retirement and survivors' pensions	-4 567	-9 678	-11 469	18.5%
Other operating charges	**-582 126**	**-674 801**	**-909 809**	**34.8%**
VAT and other levies	-67 892	-84 179	-112 312	33.4%
Other charges	-514 324	-590 623	-797 497	35.0%
Depreciation, fixed assets	**-176 174**	**-206 782**	**-245 366**	**18.7%**
Cost/income ratio	**63.6%**	**60.0%**	**65.3%**	**-**

In the banking business, administrative expenses climbed 22.5% in 1999, raising the cost/income ratio by five percentage points to 65%. The higher charges were the result of the broader scope of consolidation, as well as the merger, among other things. 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 not making a sufficient contribution to profit were 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. This last has to do with the replacement, on balance, of administrative personnel leaving the bank through attrition by more highly trained junior and middle management staff. Junior and middle management now account for 35% of the staff of KBC Bank NV, as against less than 30% in 1998. Abroad, staff charges also headed up, not taking the acquisitions into account, climbing 24%, due to 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. 93 million euros of this increase was accounted for by KBC Bank NV for various reasons, mainly the 35.7 million euros' worth of merger-related expenses (whose impact on the results was fully offset by writing back provisions), the bank's higher IT expenditure, the fees paid on acquisitions and the lower VAT deduction allowed. At CBC Banque, too, the other operating charges went up by 15 million euros on account of IT- and merger-related expenses and company tax. Given the brisk growth in the volume of operational leasing activities, the attendant operating expenses and depreciation on tangible fixed assets went up by 29 million euros. At KBC Securities (France), too, the brisk expansion of activities meant not only strong earnings growth, but also higher operating expenses. If the acquisitions are not taken into account, the other operating charges incurred abroad, along with depreciation charges on tangible fixed assets, went up by 10%, much of which was accounted for by the cost of securitizing commercial loans in New York.

Note 30: Write-downs on and provisions for credit risks, banking

Write-downs on and provisions for credit risks, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Write-downs on credit risks	**-164 043**	**-178 797**	**-341 619**	**91.1%**
Belgium	**-109 095**	**-64 878**	**-128 455**	**98.0%**
General provision for the dioxin crisis	0	0	-25 230	-
Other write-downs and provisions	-109 095	-64 878	-103 225	59.1%
Abroad	**-54 948**	**-113 919**	**-213 164**	**87.1%**
Provision for country risks	-20 887	-41 993	-34 012	-19.0%
Other write-downs and provisions	-34 061	-71 927	-179 152	149.1%
Net transfer to the contingency funds	**-221 053**	**-206 958**	**-238 839**	**15.4%**

Details on increases/decreases in write-downs and provisions

(in thousands of EUR)	31 Dec. 1998		31 Dec. 1999	
	Belgium	Abroad	Belgium	Abroad
Total write-downs and provisions	**-64 878**	**-113 919**	**-128 455**	**-213 164**
For irrecoverable and doubtful loans	**-22 987**	**-17 643**	**-80 204**	**-111 140**
Write-downs and provisions	-103 686	-31 641	-116 587	-177 049
Write-backs and transfers from provisions	80 699	13 999	36 383	65 910
For loans with an uncertain outcome, case-by-case valuation	**-25 974**	**-40 041**	**-25 155**	**-80 641**
Write-downs and provisions	-72 729	-46 792	-37 467	-180 905
Write-backs and transfers from provisions	46 755	6 751	12 311	100 264
For loans with an uncertain outcome, valuation on a portfolio basis	**-13 631**	**-12 143**	**-22 715**	**-13 126**
Write-downs and provisions	-27 687	-13 318	-27 757	-15 045
Write-backs and transfers from provisions	14 056	1 175	5 042	1 919
Commitment credit	**-2 286**	**-2 100**	**-380**	**25 755**
Provision	-2 648	-4 809	-952	-37 385
Transfers from provision	362	2 709	573	63 140
Provision for country risks	**0**	**-41 993**	**0**	**-34 012**
Provision	0	-41 993	0	-37 251
Transfers from provision	0	0	0	3 240

Write-downs on and provisions for credit risks in the domestic banking business rose 63.6 million euros or 98% to 128.5 million euros, due largely to the 25.2 million euros provisioned for the dioxin crisis (of the 43.9 million euros provisioned in the first half of the year, 18.7 million euros was written back in the second, as no serious losses materialized) and to the fact that there was no repeat of the 48 million euro write-back made in 1998 because of the harmonization of valuation rules at KBC Bank.

Disregarding changes in the scope of consolidation, write-downs on and provisions for credit risks in the banking business abroad would have gone up by 41 million euros to 213 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 million euros (compared with 42 million euros in 1998) and mainly contains a general provision for the emerging markets (see also Note 4). ČSOB's consolidation (impact 53 million euros) accounts for most of the remaining increase in the overall heading for write-downs on and provisions for credit risks.

Note 31: Write-downs on securities, banking (see Note 5 for further details)

Write-downs on securities, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**-3 314**	**-39 353**	**21 470**	**-**
Fixed-income securities	**-3 935**	**-16 562**	**9 643**	**-**
Write-downs	-4 260	-19 354	-7 172	-62.9%
Write-backs	326	2 792	16 816	502.2%
Variable-yield securities	**621**	**-22 791**	**11 827**	**-**
Write-downs	-4 214	-24 265	-11 997	-50.6%
Write-backs	4 835	1 475	23 824	1 515.4%

3.3 Results from ordinary activities, insurance

Note 32: Profit on ordinary activities, insurance

As already mentioned in the valuation rules, an important change was made to the presentation of the profit on ordinary activities in the insurance business. Two headings have been added, namely 'Non-recurring income' and 'Non-recurring charges'. These are components of the results that are linked to ordinary business activities, but which are, as the name implies, non-recurring. The *pro forma* results as at 31 December 1997 and the results as at 31 December 1998 have been adjusted retroactively to take account of the new presentation.

The non-recurring result includes the capital gains considered as non-recurring 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 on the share portfolio held over the past ten years. 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.

a) Overview

The tables below show a reconciliation between the summary figures in the consolidated profit and loss account of the KBC Bank and Insurance Holding Company (i.e. the figures under headings A, B, etc., in the right-hand column) and the figures in the detailed profit and loss account of the insurance company included under '6 Contribution of KBC Insurance in accordance with the lay-out required by law for the financial statements of Belgian insurance companies'.

Profit on ordinary activities, insurance

31 Dec. 1997, pro forma (in thousands of EUR)	Technical account LIFE	Technical account NON-LIFE	Non-technical account	Total
Gross premiums earned	832 828	763 880	0	1 596 708
Outward reinsurance premiums	-6 252	-78 022	0	-84 274
Earned premiums, net of reinsurance (heading A)	**826 576**	**685 858**	**0**	**1 512 434**
Recurring	826 576	685 858	0	1 512 434
Gross claims paid	-134 825	-443 683	0	-578 507
Claims paid, reinsurers' share	1 209	47 424	0	48 633
Gross provision for claims outstanding	-7 634	-81 148	0	-88 783
Provision for claims outstanding, reinsurers' share	791	-7 282	0	-6 490
Bonuses and rebates, net of reinsurance	-1 924	-437	0	-2 362
Other technical provisions	-768 083	-19 130	0	-787 214
Other technical income and charges	-2 108	-8 356	0	-10 464
Net technical charges (heading B)	**-912 574**	**-512 612**	**0**	**-1 425 186**
Recurring	-912 574	-512 612	0	-1 425 186
Investment income	0	0	535 561	535 561
Value adjustments, unit-linked life assurance	559	0	0	559
Investment charges (1)	0	0	-55 065	-55 065
Other income and charges (non-technical)	0	0	-16 010	-16 010
Allocation to the technical accounts	219 995	152 767	-372 762	0
Investment income and charges (heading C)	**220 553**	**152 767**	**91 724**	**465 044**
Recurring	220 553	152 767	18 498	391 818
Non-recurring	0	0	73 226	73 226
Results from participating interests consolidated via the equity method (heading D)	**0**	**0**	**4 372**	**4 372**
Net acquisition costs	-54 918	-185 759	0	-240 677
Administrative expenses	-13 338	-41 275	0	-54 613
General administrative expenses (heading E)	**-68 256**	**-227 034**	**0**	**-295 290**
Depreciation of goodwill on consolidation (heading F)	**0**	**0**	**-484**	**-484**
Profit on ordinary activities	**66 299**	**98 979**	**95 612**	**260 890**
Recurring	66 299	98 979	22 386	187 663
Non-recurring	0	0	73 226	73 226

(1) Excluding depreciation of goodwill on consolidation.

31 Dec. 1998 (in thousands of EUR)	Technical account LIFE	Technical account NON-LIFE	Non-technical account	Total
Gross premiums earned	1 110 330	793 798	0	1 904 128
Outward reinsurance premiums	-4 907	-63 492	0	-68 399
Earned premiums, net of reinsurance (heading A)	**1 105 423**	**730 306**	**0**	**1 835 729**
Recurring	1 105 423	695 626	0	1 801 048
Non-recurring	0	34 680	0	34 680
Gross claims paid	-398 980	-434 992	0	-833 973
Claims paid, reinsurers' share	4 451	40 663	0	45 114
Gross provision for claims outstanding	-25 658	-111 087	0	-136 745
Provision for claims outstanding, reinsurers' share	11	17 172	0	17 183
Bonuses and rebates, net of reinsurance	-1 680	-508	0	-2 188
Other technical provisions	-850 015	-129 355	0	-979 370
Other technical income and charges	-1 892	-10 298	0	-12 190
Net technical charges (heading B)	**-1 273 764**	**-628 404**	**0**	**-1 902 168**
Recurring	-1 212 555	-515 048	0	-1 727 603
Non-recurring	-61 209	-113 356	0	-174 565
Investment income	0	0	856 204	856 204
Value adjustments, unit-linked life assurance	13 632	0	0	13 632
Investment charges (1)	0	0	-67 806	-67 806
Other income and charges (non-technical)	0	0	-18 020	-18 020
Allocation to the technical accounts	338 146	249 996	-588 142	0
Investment income and charges (heading C)	**351 777**	**249 996**	**182 236**	**784 010**
Recurring	209 569	171 320	14 644	476 532
Non-recurring	61 209	78 676	167 592	307 477
Results from participating interests consolidated via the equity method (heading D)	**0**	**0**	**4 211**	**4 211**
Net acquisition costs	-66 434	-187 211	0	-253 645
Administrative expenses	-16 227	-47 772	0	-63 999
General administrative expenses (heading E)	**-82 662**	**-234 983**	**0**	**-317 644**
Depreciation of goodwill on consolidation (heading F)	**0**	**0**	**-322**	**-322**
Profit on ordinary activities	**100 775**	**116 915**	**186 124**	**403 814**
Recurring	100 775	116 915	18 532	236 222
Non-recurring	0	0	167 592	167 592

(1) Excluding depreciation of goodwill on consolidation.

31 Dec. 1999 (in thousands of EUR)	Technical account LIFE	Technical account NON-LIFE	Non-technical account	Total
Gross premiums earned	1 357 721	786 792	0	2 144 513
Outward reinsurance premiums	-3 578	-45 767	0	-49 345
Earned premiums, net of reinsurance (heading A)	**1 354 143**	**741 025**	**0**	**2 095 168**
Recurring	1 354 143	741 025	0	2 095 168
Gross claims paid	-399 803	-468 854	0	-868 657
Claims paid, reinsurers' share	891	32 026	0	32 918
Gross provision for claims outstanding	-9 532	-91 752	0	-101 284
Provision for claims outstanding, reinsurers' share	1 583	-17 675	0	-16 093
Bonuses and rebates, net of reinsurance	-8	-517	0	-525
Other technical provisions	-1 292 673	-36 797	0	-1 329 470
Other technical income and charges	-2 801	-9 621	0	-12 422
Net technical charges (heading B)	**-1 702 343**	**-593 190**	**0**	**-2 295 533**
Recurring	-1 571 237	-554 427	0	-2 125 664
Non-recurring	-131 106	-38 763	0	-169 869
Investment income	0	0	893 487	893 487
Value adjustments, unit-linked life assurance	118 751	0	0	118 751
Investment charges (1)	0	0	-132 245	-132 245
Other income and charges (non-technical)	0	0	-17 271	-17 271
Allocation to the technical accounts	442 732	227 853	-670 586	0
Investment income and charges (heading C)	**561 483**	**227 853**	**73 385**	**862 722**
Recurring	430 377	189 090	57 421	676 888
Non-recurring	131 106	38 763	15 964	185 833
Results from participating interests consolidated via the equity method (heading D)	**0**	**0**	**11 495**	**11 495**
Net acquisition costs	-75 646	-201 735	0	-277 381
Administrative expenses	-20 772	-46 018	0	-66 790
General administrative expenses (heading E)	**-96 418**	**-247 753**	**0**	**-344 171**
Depreciation of goodwill on consolidation (heading F)	**0**	**0**	**-1 735**	**-1 735**
Profit on ordinary activities	**116 864**	**127 935**	**83 145**	**327 944**
Recurring	116 864	127 935	67 181	311 981
Non-recurring	0	0	15 964	15 964

(1) Excluding depreciation of goodwill on consolidation.

b) Life business

Gross premiums earned, life assurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Total	**832 828**	**1 110 330**	**1 357 721**	**22.3%**
Accepted business	**15 714**	**15 099**	**15 741**	**4.3%**
Direct business	**817 114**	**1 095 231**	**1 341 980**	**22.5%**
Individual premiums	744 025	1 013 654	1 251 266	23.4%
Premiums under group contracts	73 089	81 578	90 714	11.2%
Periodic premiums	343 645	328 836	343 673	4.5%
Single premiums	473 469	766 396	998 307	30.3%
Premiums from non-bonus contracts	228 623	282 727	89 221	-68.4%
Premiums from bonus contracts	558 999	641 746	318 258	-50.4%
Premiums from contracts where the investment risk is not borne by the company (class 23)	29 492	170 758	934 502	447.3%
Reinsurance balance	**299**	**725**	**-800**	**-**
Commissions	**41 002**	**51 202**	**50 695**	**-1.0%**

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 class-21 (or conventional) life assurance 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%.

In order to establish a buffer to cover the interest rate risk, the decision was taken in 1998 to recalculate the technical provisions for all contracts with a guaranteed rate of 4.75% using a discount rate of 4%. This rule was applied to a portion of the portfolio even before 1998. With the additional allocations of 61 million euros in 1998 and 131 million euros in 1999, this operation has now been completed. This operation did not affect the result, due to the fact that gains realized on shares were equal to the amounts allocated. Both of these items were posted under the ‘Non-recurring results’ heading in the consolidated profit and loss account of the Group.

The technical result for the life business ended the year at 116.9 million euros, or 16% up on the corresponding figure for 1998.

c) Non-life business

Results per class of business

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Overview				
Gross premiums earned	763 880	793 798	786 792	-0.9%
Gross claims incurred (1)	-524 831	-546 079	-560 606	2.7%
Gross operating expenses (2)	-245 765	-246 858	-255 724	3.6%
Reinsurance balance (3)	-19 148	6 218	-23 445	-
Subtotal, non-life results (for a more detailed breakdown, see below)	**-25 865**	**7 079**	**-52 982**	**-**
Other technical provisions	-19 568	-129 863	-37 315	-71.3%
Other technical income and charges	-8 356	-10 298	-9 621	-6.6%
Investment income and charges	152 767	249 996	227 853	-8.9%
Balance of the technical account, non-life	**98 979**	**116 915**	**127 935**	**9.4%**

(1) Gross claims paid + provision for claims outstanding.
(2) General administrative expenses and acquisition costs (excluding reinsurance commission and profit participation).
(3) Reinsurers' share of claims incurred – outward reinsurance premiums + commission received from reinsurers and bonuses.

Results per class of business

(in thousands of EUR)	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
1998 FIGURES					
Total	**793 798**	**-546 079**	**-246 858**	**6 218**	**7 079**
Accepted business	**125 621**	**-117 905**	**-39 977**	**15 821**	**-16 441**
Direct business	**668 177**	**-428 173**	**-206 880**	**-9 603**	**23 520**
1 Accident & Health (classes 1 & 2, exc. industrial accidents)	60 528	-35 100	-18 656	-1 608	5 164
2 Industrial accidents (class 1)	72 087	-40 153	-16 162	-61	15 710
3 Motor, third-party liability (class 10)	195 373	-179 518	-54 729	1 839	-37 035
4 Motor, other classes (classes 3, 7)	67 203	-34 257	-20 653	-1 139	11 155
5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	1 372	-924	-783	-44	-378
6 Fire and other damage to property (classes 8, 9)	186 400	-83 622	-66 310	-5 985	30 483
7 General third-party liability (class 13)	53 832	-34 376	-19 793	-650	-987
8 Credit and suretyship (classes 14, 15)	25	26	-4	0	47
9 Miscellaneous pecuniary losses (class 16)	2 377	-683	-649	-1 933	-888
10 Legal assistance (class 17)	26 586	-17 895	-8 519	-23	150
11 Assistance (class 18)	2 394	-1 672	-624	0	99

(in thousands of EUR)	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
1999 FIGURES					
Total	**786 792**	**-560 606**	**-255 724**	**-23 445**	**-52 983**
Accepted business	**152 390**	**-121 690**	**-43 428**	**-16 060**	**-28 788**
Direct business	**634 402**	**-438 916**	**-212 296**	**-7 385**	**-24 194**
1 Accident & Health (classes 1 & 2, exc. industrial accidents)	61 074	-36 741	-21 458	-258	2 617
2 Industrial accidents (class 1)	70 471	-33 004	-14 027	-2 849	20 591
3 Motor, third-party liability (class 10)	185 279	-192 467	-57 821	-573	-65 582
4 Motor, other classes (classes 3, 7)	65 263	-37 926	-21 652	-56	5 630
5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	1 395	-1 023	-799	-35	-462
6 Fire and other damage to property (classes 8, 9)	169 659	-74 894	-66 698	-2 000	26 067
7 General third-pary liability (class 13)	50 750	-37 768	-20 311	-1 587	-8 916
8 Credit and suretyship (classes 14, 15)	92	10	-19	-7	76
9 Miscellaneous pecuniary losses (class 16)	2 496	-1 623	-668	0	206
10 Legal assistance (class 17)	25 200	-21 201	-8 022	-21	-4 043
11 Assistance (class 18)	2 724	-2 280	-821	0	-377

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 adherence to a prudent provisioning policy resulted in the net loss ratio edging up by 2.3 percentage points to 72.5%.

In 1998, the equalization and catastrophe provision was increased by 113.4 million euros to the standard amount, i.e. the maximum set by the supervisory authority. In the same year, the provision for unearned premiums was calculated for the first time using premiums, net of commissions, thereby generating 34.7 million euros' worth of income (included under the 'Change in premium reserve' heading). Both of these items were posted under the 'Non-recurring results' heading in the consolidated profit and loss account of the Group.

Although the transition to the year 2000 passed off without any problems worthy of note, the millennium provision of 29.6 million euros posted in mid-1999 (to a non-recurring heading) was still retained as a precautionary measure. The extra claims provisioning at Fidea relates to the harmonization of the valuation rules within the group, as regards internal claims-settlement expenses.

Due to the fact that an adequate surplus was generated by the gains realized on shares in both 1998 and 1999, the result was not affected by these non-recurring charges.

Despite the exceptional claims and the strong competitive pressure on prices, the non-life business was able to close 1999 with a very respectable profit of 127.9 million euros, up 9.4% on the corresponding figure for 1998.

d) 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.

In 1999, the non-recurring capital gains realized on shares amounted to 257 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 non-recurring capital gains realized on shares and the setting-aside of the new provision for financial risks.

Results from ordinary activities, insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Recurring technical result, Life	66 299	100 775	116 864	16.0%
Recurring non-technical result, Non-life	98 979	116 915	127 935	9.4%
Recurring non-technical result from ordinary activities	22 386	18 532	67 181	262.5%
Recurring result from ordinary activities	**187 663**	**236 222**	**311 981**	**32.1%**
Non-recurring result	73 226	167 592	15 964	-90.5%
Result from ordinary activities	**260 890**	**403 814**	**327 944**	**-18.8%**

Total investment income and charges, insurance

(in thousands of EUR)	Income and charges (1)	Value adjustments	Gains and losses	Total
1998				
Total, excluding management charges	**435 603**	**-14 593**	**393 621**	**814 631**
Land and buildings	22 338	-10 326	1 180	13 191
From shares and other variable-yield securities	88 117	-13 915	368 243	442 445
Bonds and other fixed-income securities	311 646	8 062	23 801	343 509
Participation in investment pools	2 568	0	54	2 621
Loans guaranteed by mortgages	26 812	1 738	-95	28 455
Deposits with ceding companies	4 768	0	0	4 768
Other investments	-20 646	-151	438	-20 359
Management charges	-	-	-	**-8 713**
Total, including management charges	-	-	-	**805 918**
1999				
Total, excluding management charges	**381 016**	**124 286**	**392 556**	**897 858**
Land and buildings	21 557	-8 379	5 517	18 695
From shares and other variable-yield securities	12 747	127 048	370 729	510 524
Bonds and other fixed-income securities	331 573	2 175	11 642	345 389
Participation in investment pools	2 569	0	4	2 574
Loans guaranteed by mortgages	19 321	233	3 079	22 632
Deposits with ceding companies	3 966	0	0	3 966
Other investments	-12 008	3 210	1 586	-7 213
Commissions, class 23	1 292	0	0	1 292
Management charges	-	-	-	**-8 106**
Total, including management charges	-	-	-	**889 753**

(1) Including the results from companies consolidated according to the equity method.

Realized gains on shares

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
Almanij	96 678	122 460
Generale Bank	92 410	0
Generale Maatschappij	29 970	0
Royale Belge	16 445	0
Tractebel	0	48 810
Fortis	0	29 670
ING	0	24 120
PetroFina	0	22 240
ST Microelectronics	0	14 550
Electrabel	34 705	12 740
UCB	27 268	10 860
CBR	0	10 470
Guardian Royal Exchange	0	10 540
Banque Paribas	0	7 260
Mannesmann	0	8 970
Mobistar	0	8 750
KBC Equity Fund World	0	4 160
Other	70 766	35 129

3.4 Results from ordinary activities of the holding company, extraordinary results and taxes

Note 33: Profit on ordinary activities, holding-company activities

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

Note 34: Extraordinary results

Extraordinary results

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Extraordinary results	**69 208**	**-116 467**	**194 941**	**-**
Merger-related income and charges	**-1 859**	**-126 341**	**-11 788**	**-90.7%**
Restructuring expenses, banking	0	-111 552	0	-100.0%
Restructuring expenses, insurance	-1 859	-26 863	-11 788	-56.1%
Depreciation of goodwill	0	-60 376	0	-100.0%
Realized gains on financial fixed assets	0	72 450	0	-100.0%
● banking	0	37 184	0	-100.0%
● insurance	0	35 266	0	-100.0%
Other extraordinary results, banking	**70 327**	**14 136**	**206 645**	**1 441.4%**
Extraordinary write-downs and depreciation (and write-backs) on tangible fixed assets	-16 983	-7 989	-13 995	75.2%
Gains and losses realized on the disposal of tangible fixed assets	3 739	2 281	7 378	223.5%
Gains and losses realized on the disposal of financial fixed assets	86 892	17 502	211 091	1 106.1%
● ING	49 209	0	0	-
● Kredietbank (Suisse)	8 081	0	0	-
● GIMV	3 684	0	0	-
● KBC Bank Luxembourg	0	0	49 441	-
● Kredietbank SA Luxembourgeoise	0	0	72 676	-
● Irish Life Plc.	0	0	65 839	-
● KBC Bank (Suisse)	0	0	4 996	-
● Other	25 917	17 502	18 140	3.6%
Other provisions of extraordinary liabilities and charges	-3 065	0	-1 203	-
Other extraordinary income and charges	-256	2 343	3 374	109.2%
Other extraordinary results, insurance	**741**	**-3 532**	**84**	**-**

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 provision for merger-related expenses no longer really being a factor (although it was topped up by 11.8 million euros in the insurance business), 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 7.26%) in Kredietbank SA Luxembourgeoise, and 65.8 million euros from Irish Life, when shares in that company were exchanged for Irish Life & Permanent shares. These extraordinary capital gains were transferred entirely to the Fund for General Banking Risks and, therefore, have no impact on the net result.

Note 35: 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 (higher level of tax-exempt gains on shares and financial fixed assets in 1999, compared with 1998) and provisions set aside (lower amount of taxed provisions in 1999, compared with 1998). In the insurance business, a 59.5 million euro provision for taxes was posted in 1998 for the disputed assessment of tax on the interest buffer built into the technical provisions of the former ABB. Disregarding this provision, taxes in the insurance business still fell by 16.6 million euros, chiefly as a result of the higher amount of franked investment income.

3.5 Off-balance-sheet headings

Note 36: Off-balance-sheet headings, banking

Off-balance-sheet headings, banking

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
1 Contingent liabilities	**8 145 526**	**9 741 988**	**13 338 013**	**36.9%**
A Non-negotiated acceptances	130 273	48 605	36 558	-24.8%
B Guarantees in the nature of direct credit substitutes	3 691 733	4 027 931	5 996 201	48.9%
C Other guarantees	3 635 823	5 068 476	6 584 326	29.9%
D Documentary credits	650 705	512 992	620 200	20.9%
E Assets charged as collateral security on behalf of third parties	36 992	83 984	100 728	19.9%
2 Commitments carrying a potential credit risk	**31 284 950**	**38 846 439**	**43 654 727**	**12.4%**
A Firm credit commitments	2 635 240	3 087 195	231 556	-92.5%
B Commitments arising from spot purchases of securities	965 752	216 340	88 765	-59.0%
C Undrawn margin on confirmed credit lines	27 547 818	35 445 090	43 316 753	22.2%
D Underwriting and placing commitments	136 140	97 814	17 654	-82.0%
3 Assets lodged with the companies included in the consolidation	**51 158 703**	**74 107 795**	**79 003 407**	**6.6%**
A Assets held for fiduciary purposes	591 444	847 903	1 113 433	31.3%
B Safe custody and equivalent items	50 567 259	73 259 892	77 889 973	6.3%
4 Uncalled share capital	**33 159**	**30 003**	**20 593**	**-31.4%**

Company (in thousands of EUR)	Affiliated companies	Companies linked by participating interests	Other	Total
Banking	**4 214**	**1 071**	**15 308**	**20 593**
Gemma Frisius-Fonds KU Leuven NV	124	-	-	124
IT-Partners NV	3 718	-	-	3 718
Resiterra NV	372	-	-	372
Secretariaat voor Roerende Waarden CV	-	2	-	2
B.EPSYS SV	-	15	-	15
BEM NV	-	93	-	93
Rendex NV	-	775	-	775
Wendelen-Fonds NV	-	186	-	186
African Export-Import Bank NV	-	-	597	597
Europees Investeringsfonds	-	-	3 200	3 200
Euro Synergies Investments SC	-	-	2 216	2 216
Telenet Holding NV	-	-	2 355	2 355
IDETA SC	-	-	1	1
Aquaplus	-	-	447	447
Aquafin NV	-	-	6 492	6 492

5 Forward off-balance-sheet transactions in securities, foreign currencies and other financial instruments

31 Dec. 1998 (in thousands of EUR)	Notional amounts	Of which used for trading purposes	Remaining term to maturity			Replacement value		Potential future credit exposure
			≤ 1 year	1-5 years	≥ 5 years	Positive	Negative	
Derivatives	**658 908 905**	**237 365 660**	**470 115 717**	**128 354 260**	**60 436 491**	**7 032 417**	**-6 898 703**	**5 781 398**
In foreign currencies								
• Forward foreign exchange operations	232 521 006	1 713 217	231 281 312	1 239 691	0	686 070	-200 372	2 374 795
• Currency and interest rate swaps	8 332 614	3 059 403	2 834 514	3 633 747	1 864 333	176 599	-524 072	349 852
• Futures	2 131	0	0	0	0	0	0	0
• Options	6 875 843	6 338 662	6 867 791	8 032	0	56 396	-46 877	69 063
In other financial instruments								
Interest rate contracts								
• Interest rate swap agreements	266 077 223	140 737 731	121 768 919	97 654 407	46 653 859	5 082 710	-4 969 968	1 188 079
• Forward rate agreements	57 192 291	31 187 187	53 256 701	3 935 558	0	106 495	-120 799	19 658
• Interest rate futures	41 084 966	12 199 485	37 356 811	3 728 120	0	19 237	-7 858	18 617
• Interest rate options	23 983 119	23 943 936	10 848 812	9 513 162	3 621 080	150 397	-127 839	101 859
Other contracts								
• Share options	18 539 570	17 219 477	2 374 770	8 264 473	7 900 292	717 999	-882 303	1 593 658
• Futures transactions	711 327	711 306	711 306	0	0	24 789	-3 471	42 662
• Other forward purchases and sales	3 588 815	255 256	2 814 781	377 071	396 927	11 725	-15 146	23 153
Total derivatives: breakdown by counterparty type								
• Government	1 850 674	-	-	-	-	25 731	-9 569	16 460
• Financial institutions	558 305 796	-	-	-	-	5 763 252	-5 821 928	5 146 939
• Other	98 752 401	-	-	-	-	1 243 508	-1 067 330	618 098
Total	**658 908 872**	**-**	**-**	**-**	**-**	**7 032 491**	**-6 898 827**	**5 781 497**

31 Dec. 1999 (in thousands of EUR)	Notional amounts	Remaining term to maturity			Replacement value		Potential future credit exposure
		≤ 1 year	1-5 years	≥ 5 years	Positive	Negative	
NON-TRADING							
Derivatives	**279 117 244**	**251 709 248**	**20 376 498**	**7 031 497**	**3 185 522**	**-3 094 078**	**1 338 184**
In foreign currencies							
• Forward foreign exchange operations	60 258 888	59 684 824	574 064	0	1 322 517	-1 256 494	625 551
• Currency and interest rate swaps	3 118 183	1 497 839	1 399 132	221 212	127 781	-210 677	101 500
• Options	354 062	310 830	43 232	0	0	-11 277	5 270
In other financial instruments							
Interest rate contracts							
• Interest rate swap agreements	181 115 570	161 358 565	13 344 300	6 412 705	1 248 303	-777 061	162 912
• Forward rate agreements	5 074 773	4 956 433	118 339	0	13 008	-31 173	592
• Interest rate futures	22 800 517	22 692 942	107 576	0	236 359	-56 186	538
• Interest rate options	786 850	385 137	364 059	37 654	0	0	2 385
Other contracts							
• Share options	5 457 800	672 077	4 425 798	359 926	236 090	-611 699	430 400
• Futures transactions	150 601	150 601	0	0	1 465	-139 512	9 036
TRADING							
Derivatives	**437 438 309**	**235 524 699**	**124 482 764**	**77 430 846**	**5 873 261**	**-5 443 560**	**3 587 351**
In foreign currencies							
• Forward foreign exchange operations	62 804 984	62 113 377	691 606	0	905 101	-805 051	655 714
• Currency and interest rate swaps	5 601 026	1 690 033	2 531 273	1 379 720	229 104	-159 329	246 943
• Futures	360 081	360 081	0	0	0	0	3 601
• Options	6 335 135	5 633 185	701 106	844	34 333	-38 539	91 450
In other financial instruments							
Interest rate contracts							
• Interest rate swap agreements	220 316 235	67 835 190	84 583 468	67 897 577	4 285 462	-4 065 909	1 441 381
• Forward rate agreements	68 415 154	66 517 947	1 857 207	40 000	91 087	-83 109	9 886
• Interest rate futures	23 497 025	20 410 446	3 086 580	0	8 877	-20 656	15 433
• Interest rate options	38 703 020	8 280 135	25 403 768	5 019 118	275 385	-252 114	202 306
Other contracts							
• Share options	10 347 787	1 794 536	5 459 664	3 093 587	43 913	-18 852	853 804
• Futures transactions	1 057 862	889 769	168 092	0	0	0	66 834
TOTAL							
Derivatives	**716 555 553**	**487 233 948**	**144 859 262**	**84 462 343**	**9 058 783**	**-8 537 638**	**4 925 536**
In foreign currencies							
• Forward foreign exchange operations	123 063 872	121 798 202	1 265 670	0	2 227 618	-2 061 546	1 281 266
• Currency and interest rate swaps	8 719 208	3 187 872	3 930 405	1 600 931	356 885	-370 006	348 443
• Futures	360 081	360 081	0	0	0	0	3 601
• Options	6 689 197	5 944 015	744 338	844	34 333	-49 815	96 720
In other financial instruments							
Interest rate contracts							
• Interest rate swap agreements	401 431 805	229 193 756	97 927 767	74 310 282	5 533 765	-4 842 970	1 604 293
• Forward rate agreements	73 489 927	71 474 380	1 975 547	40 000	104 095	-114 282	10 478
• Interest rate futures	46 297 542	43 103 387	3 194 155	0	245 236	-76 842	15 971
• Interest rate options	39 489 870	8 665 272	25 767 826	5 056 772	275 385	-252 114	204 691
Other contracts							
• Share options	15 805 588	2 466 613	9 885 462	3 453 513	280 002	-630 551	1 284 204
• Futures transactions	1 208 463	1 040 371	168 092	0	1 465	-139 512	75 870

31 Dec. 1999 (in thousands of EUR)	Notional amounts	Remaining term to maturity			Replacement value		Potential future credit exposure
		≤ 1 year	1-5 years	≥ 5 years	Positive	Negative	
Total derivatives: breakdown by counterparty type							
● Government	51 354 183	-	-	-	328 163	-257 072	190 910
● Financial institutions	593 585 776	-	-	-	6 929 739	-6 360 342	4 091 774
● Other	71 615 593	-	-	-	1 800 880	-1 920 225	642 859
Total	**716 555 553**	**-**	**-**	**-**	**9 058 783**	**-8 537 638**	**4 925 542**

Trading transactions

Trading transactions (transactions in the trading portfolio) are entered into with a view to making a profit on the short term on fluctuations in prices or interest rates. Such transactions are marked to market. Deals concluded as a result of prices quoted on the market by the bank are, among other things, considered trading transactions. Trading transactions are subject to the capital adequacy requirements for the purpose of hedging the interest rate risk.

Non-trading transactions

- **Hedging operations**

  Hedging operations are carried out to reduce the interest rate or exchange risk associated with a position. Similar operations can be considered as a single homogeneous unit of items to be hedged, if there is no more than 10% deviation in the duration. The classification of an operation as a hedge is irrevocable; when a hedge is initiated, the position being hedged has to be explicitly identified. A hedging operation that no longer qualifies as a hedge will be considered a trading transaction. Partial hedges are allowed. In order to be effective, the hedge must be in the same currency as the position hedged. The Basis-Point-Value (BPV) of the hedge may not deviate by more than 20% from the BPV of the position hedged.

- **ALM in euros**

  Transactions in financial instruments entered into for the purpose of ALM in euros are 'macro-hedges' (hence they do not qualify as 'micro-hedges'), and must therefore be taken to the profit an loss account on an accruals basis, pursuant to the framework decree of 14 June 1994 issued by the Belgian Banking and Finance Commission.

- **Treasury management**

  Forward interest rate transactions which do not exceed the usual term for money market transactions and which have been concluded for treasury management purposes (in foreign currency) are taken to the profit and loss account on an accruals basis, pursuant to the framework decree of 14 June 1994 issued by the Belgian Banking and Finance Commission.

- **Strategic positions in foreign currency**

  These are positions taken solely by the dealing room in Brussels via derivatives with a view to making a profit via capital gains or interest spreads on the longer term. The bank marks this portfolio to market, although, for reasons of prudence, unrealized gains (unlike unrealized losses) are not posted. If these unrealized gains were taken into account, an additional profit of 22 million euros would have been recorded. Forward transactions in the strategic portfolio do not qualify as trading transactions as far as the capital adequacy requirements are concerned.

- **General management in foreign currency**

  The other forward interest rate transactions in foreign currency, which are carried out for the purpose of the general management of on- and off-balance-sheet transactions per currency are recorded in the profit and loss account on an accruals basis. Any loss per currency arising from marking these forward interest rate transactions to market must be posted to the profit and loss account after netting with any unrealized gains on balance-sheet products in the same currency.

  The table below shows the amounts, on closure of the books, of the transactions concluded for the purpose of treasury and ALM management (ALM euro + general management in foreign currency). If the treasury transactions were marked to market, an additional loss of 18.7 million euros would have been posted. If the ALM transactions were marked to market, an additional profit of 358 million euros would have been recorded. These unrealized gains should be seen against the unrealized losses on balance-sheet items that are not entered in the profit and loss account, either.

Impact on the results of the derogation from the valuation rule laid down in Article 36bis, §2, regarding forward interest rate transactions

(in thousands of EUR)	Amount on account-closure date	Difference
Categories of forward interest rate transactions between market value and carrying value		
For the purpose of treasury management	217 793 303	-18 731
For the purpose of ALM management	18 497 373	358 718

Note 37: Uncalled share capital, insurance

Uncalled share capital

Company (in thousands of EUR)	Companies linked by participating interests	Other	Total
Total	**1 334**	**2 324**	**3 658**
BEM NV	93	-	93
Premaz CV	2	-	2
Collective Motor Guarantee Fund	1	-	1
Huis der Verzekering CV	59	-	59
Telenet Holding NV	1 178	-	1 178
IT-Partners NV	-	1 239	1 239
Bank for International Settlements	-	143	143
Aquafin	-	496	496
Capricorn Venture fund, A shares	-	446	446

Note 38: Collateral security constituted by the consolidated entity or irrevocably committed as a charge against its own assets

Carrying value of the assets pledged

(in thousands of EUR)	
As security for the debts and commitments of the consolidated entity	
Liabilities headings	
• Discounting, repurchase agreements and secured advances	5 270 458
• Fixed pledge in respect of National Bank advances	4 221 691
• Fixed pledge in respect of EIB credit facility	614 032
• Asset pledge requirement KBC New York	220 983
• Other	41 261
Off-balance-sheet headings	
• Margins for futures transactions	364 854
• Margins for options	2 886
As security for the debts and commitments of third parties	
Liabilities headings	
• Other	113 943
Off-balance-sheet headings	
• Options	13 651

3.6 Miscellaneous

Note 39: Cash flow statement

Cash flow statement of the KBC Bank and Insurance Holding Company NV (consolidated)

(in thousands of EUR)	1998	1999
CASH FLOW FROM OPERATING ACTIVITIES		
Consolidated profit	812 283	1 061 929
Banking		
Net write-downs on amounts receivable, commitments, investment securities and financial fixed assets	893 199	564 862
Depreciation on fixed assets	225 852	268 691
Net change in provisions	152 583	3 300
Insurance		
Depreciation on fixed assets	106 023	25 510
Depreciation on investments	2 306	1 835
Net change in non-life insurance provisions	844 096	418 200
Net change in life assurance provisions	309 146	1 021 707
Net change in other provisions	72 793	68 776
Subtotal, internal financing	**3 418 280**	**3 434 810**
Directors' emoluments	-1 514	-1 362
Banking		
Change in the scope of consolidation, amounts written down on receivables	493 372	582 340
Acquisition of investment securities	-27 923 423	-28 816 059
Sale of investment securities	25 809 017	26 349 883
Matured portion of premium/discount on investment securities	165 276	89 472
Change in deferrals and accruals	838 793	-650 141
Change in working capital requirement	3 924 116	-3 581 503
Amounts eliminated on consolidation	186 720	5 378
Insurance		
Acquisition of investment securities	-2 573 925	-4 048 230
Sale of investment securities	1 052 288	2 322 604
Change in deferrals and accruals	-40 104	-8 613
Change in working capital requirement	46 131	149 178
Amounts eliminated on consolidation	93 360	-80 788
Holding-company activities		
Change in working capital requirement	582 112	1 057 949
Amounts eliminated on consolidation	-256 390	329 148
Net cash flow from operating activities	**5 814 109**	**-2 865 934**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Banking		
Acquisition of financial assets	-127 113	-674 083
Sale of financial fixed assets	18 536	61 055

(in thousands of EUR)	1998	1999
Acquisition of (in)tangible fixed assets	-465 475	-522 481
Sale of (in)tangible fixed assets	150 014	405 714
Insurance		
Acquisition of (in)tangible fixed assets	-108 122	-5 425
Sale of (in)tangible fixed assets	5 364	-517
Holding-company activities		
Acquisition of financial fixed assets	0	-285 436
Net cash flow from investment activities	**-526 796**	**-1 021 173**
CASH FLOW FROM FINANCING ACTIVITIES		
Income from the issue of shares	47 171	27 747
Dividends paid	-324 047	-365 650
Income from the issue of preference shares	0	1 492 253
Issue of subordinated bonds and borrowings via subsidiaries	966 885	3 789 692
Redemption of subordinated bonds and borrowings via subsidiaries	-381 329	-2 150 765
Eliminations in respect of subordinated bonds on consolidation	0	-253 740
Issue of non-subordinated bonds and borrowings via subsidiaries	311 114	1 853 231
Redemption of non-subordinated bonds and borrowings via subsidiaries	-1 854 796	-1 654 265
Goodwill written off	0	-1 520 067
Other changes	-23 694	-68 074
Net cash flow from financing activities	**-1 258 696**	**1 150 362**
Cash and cash equivalents at the start of the financial year	**2 657 427**	**6 686 044**
Net cash flow from operating activities	5 814 109	-2 865 934
Net cash flow from investment activities	-526 796	-1 021 173
Net cash flow from financing activities	-1 258 696	1 150 362
Cash and cash equivalents at the end of the financial year	**6 686 044**	**3 949 299**
Banking		
Cash in hand, balances at central banks and post office banks	367 531	582 505
Treasury bills eligible for refinancing at the central bank	2 250 478	2 757 291
Loans and advances to credit institutions, repayable on demand	8 008 290	2 098 366
Amounts owed to credit institutions, repayable on demand	-3 855 015	-1 436 909
Amounts owed as a result of the rediscounting of trade bills	-131 364	-144 274
Insurance		
Liquid assets	46 124	51 000
Holding-company activities		
Investments and cash at bank and in hand	0	41 320
Total	**6 686 044**	**3 949 299**

The cash flow statement of the KBC Bank and Insurance Holding Company NV (consolidated) provides an overview of changes in the Group's cash and cash equivalents during the course of the financial year.

Comparable figures are only available for 1998, although account should be taken of the impact of the merger operations in that year and of the expansion in the scope of consolidation (mainly the addition of ČSOB) in 1999. Unless otherwise indicated, the influence of the changes in the consolidation perimeter has not been shown separately, but included in the changes in working capital. The same holds true as far as the translation differences and transfers are concerned.

The cash flows shown in the table have been divided up into cash flows for the banking business, the insurance business and the holding company, except where financing activities are concerned.

The indirect method, which has been applied here, is based on the Group's consolidated profit. The result has been adjusted for items which constitute neither cash revenue nor expenditure in order to arrive at the internal financing figure. This, together with the incoming and outgoing working-capital cash flows, constitutes the cash flow from operating activities. The cash flows from investing and financing activities have also been separated out. Taken together, the cash flows indicate what the change in cash and cash equivalents has been, on balance, between the beginning and the end of the financial year.

The Group's cash and cash equivalents went down in 1999 by 2 737 million euros to 3 949 million euros, mainly as a result of the reduction in loans and advances, repayable on demand, to credit institutions, a development which has to do with the policy of limiting risk assets.

Internal financing went up from 3 418 million euros to 3 435 million euros, a slight increase accounted for by the higher Group profit. The banking business posted lower write-downs and provisions, whereas the insurance operations saw their provisions go up sharply, though depreciation charges on fixed assets went down.

The net cash equivalents generated by the ordinary activities fell in 1999 by 2 866 million euros, compared with an increase of 5 814 million euros in 1998. The sharp drop in the need for working capital in the banking business was occasioned not only by the above-mentioned policy of curtailing risk-weighted loans and advances to credit institutions, but also by the brisk increase in investments and in loans and advances to customers, which exceeded the growth in customer deposits.

The cash flow generated by investment activities was more negative in 1999 than in 1998. Specifically, 1 021 million euros more was invested than realized in 1999, compared with a figure of 527 million euros for 1998. The gross investments in financial fixed assets came to 674 million euros in the banking business in 1999, the bulk of which is accounted for by the increase in the stake in CCF.

The financing activities yielded 1 150 million euros' worth of new funds in 1999, particularly through the issue of 1 492 million euros in non-cumulative preference shares. Via new issues, the subordinated and non-subordinated bonds, after eliminations for consolidation purposes, contributed 1 584 million euros to funding. On the other hand, the payment of dividends on ordinary shares took up an amount of 366 million euros, while 1 520 million euros' worth of goodwill was deducted.

Note 40: Financial relationships with directors and partners

Financial relationships with directors and partners

(in thousands of EUR)	1999
A Amount of remuneration to directors (*) or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount in respect of retirement pensions granted to former directors or partners on that basis	8 125
(*) of whom members of the Executive Committee	5 405
B Advances and loans granted to the directors and partners referred to under A above.	1 507

The amounts shown above are higher than the amounts mentioned in the section on 'Corporate governance', since emoluments paid to directors of the KBC Bank and Insurance Holding Company NV by other Group companies than the KBC Bank and Insurance Holding Company NV, KBC Bank NV or KBC Insurance NV are included here.

Note 41: Additional engagements undertaken by the statutory auditors

The following standard remuneration was paid to the Board of Statutory Auditors in 1999:

- KBC Bank and Insurance Holding Company NV: 23 054 euros, for the period between the Annual General Meeting of 29 April 1999 and 26 April 2000
- KBC Bank NV: 495 787 euros
- KBC Insurance NV: 88 250 euros

Besides the remuneration established by the general meetings of the KBC Bank and Insurance Holding Company NV, KBC Bank NV and KBC Insurance NV, the following additional remuneration was awarded to the statutory auditors in 1999:

- KBC Bank and Insurance Holding Company NV: 13 916 euros, for the extraordinary assignment relating to the issue of preference shares by KBC Bank NV which were guaranteed by the KBC Bank and Insurance Holding Company NV, the capital increase for personnel and the task force charged with the formulation and harmonization of valuation rules within the Group.
- KBC Bank NV: 233 454 euros for special assignments relating to, among other things, the issue of the preference shares and the Euro Medium-Term-Note programme, the special reports provided to the BFC regarding the recognition of bilateral netting agreements and the audit performed with regard to KBC Bank Nederland.
- KBC Insurance NV: 88 535 euros for special assignments (special reports and the valuation of the loan portfolio) and the exceptional work required at the close of the 1998 and 1999 financial years, since the administration of KBC Insurance NV and of Fidea is not yet processed on a shared system.

Note 42: Personnel

Personnel

Average number of persons employed, in full-time equivalents	31 Dec. 1998	31 Dec. 1999
Banking	19 751	25 680
Insurance	2 496	2 677
Other	0	5.3
Total	**22 247**	**28 362**
Number employed in Belgium	19 333	20 063

Staff and pension charges, in thousands of EUR	31 Dec. 1998	31 Dec. 1999
Banking	1 178 642	1 369 274
Insurance	116 190	137 775
Holding company	0	444
Total	**1 294 832**	**1 507 493**

For detailed personnel figures, please see the relevant section in the ‘Report on Activities - 1999’.

4 Solvency

4.1 KBC Bank

Solvency, KBC Bank

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Regulatory capital, KBC Bank (after profit appropriation)	**8 448 718**	**9 462 258**	**11 950 738**	**26.3%**
Tier-1 capital	**4 875 773**	**5 932 068**	**6 926 924**	**16.8%**
Capital and reserves	3 988 269	4 464 647	3 966 436	-11.2%
Revaluation reserve	-12 495	-11 620	-11 115	-4.3%
Fund for General Banking Risks	900 657	1 604 057	1 825 476	13.8%
Formation expenses and intangible assets	-28 484	-57 568	-89 016	54.6%
Own shares	-55 269	-55 269	-55 269	0.0%
Goodwill on consolidation	-56 703	-57 653	-48 684	-15.6%
Preference shares (1)	0	0	1 039 039	-
Third-party interests	139 799	45 475	300 058	559.8%
Tier-2 capital	**3 593 655**	**3 593 825**	**5 433 108**	**51.2%**
Revaluation reserve	12 495	11 620	11 115	-4.3%
Internal Reserve for Latent Risks	512 195	0	0	-
Upper-Tier-2 instruments				
• Mandatory convertible loan (1993-2003)	253 449	244 722	244 467	-0.1%
• Mandatory convertible loan (1998-2008)	0	185 920	185 920	0.0%
• Perpetuals	385 494	511 001	1 278 144	150.1%
Subordinated liabilities	2 430 021	2 640 562	3 463 462	31.2%
Tier-3 capital	**0**	**0**	**339 589**	**-**
Items to be deducted (participating interests)	**-20 710**	**-63 634**	**-748 884**	**1 076.9%**
Total weighted risk volume	**73 113 979**	**82 599 732**	**93 537 922**	**13.2%**
Credit risk, investment	67 132 381	74 282 987	87 170 659	17.3%
Credit risk, trading	1 156 316	1 991 028	2 822 588	41.8%
Interest rate risk, trading	2 469 163	3 833 447	1 954 738	-49.0%
Trading portfolio position in equities	471 414	746 155	1 447 850	94.0%
Exchange risk	1 884 704	1 746 115	142 088	-91.9%
Solvency ratios				
Tier-1 ratio	6.67%	7.18%	7.41%	-
CAD ratio	11.56%	11.46%	12.78%	-

Explanation regarding changes in solvency ratios	Tier-1 ratio	CAD ratio
Situation as at 1 January 1999	**7.18%**	**11.46%**
Acquisitions	**-1.80%**	**-2.89%**
New funds and internal capital creation		
Preference shares	1.19%	1.71%
Transfer to the Fund for General Banking Risks	0.28%	0.28%
Subordinated loans and perpetuals	0.00%	2.05%
Retained profit	0.42%	0.42%
Capital increase	0.74%	0.74%
Other	-0.07%	-0.08%
Organic growth in weighted risk volume	**-0.53%**	**-0.91%**
Situation as at 31 December 1999	**7.41%**	**12.78%**

(1) The preference shares are entered on the balance sheet under third-party interests.

KBC Bank's consolidated capital and reserves fell in 1999 by 498.2 million euros to 3 966.4 million euros. The main movements were accounted for by:

- the capital increase in the amount of 650 million euros, which was fully subscribed by the KBC Bank and Insurance Holding Company NV;
- the retention of earnings to the tune of 362.6 million euros;
- the writing-off of 1 509.7 million euros in goodwill on the consolidation of acquisitions after 1 January 1999 (see Note 7).

Despite the drop in capital and reserves, Tier-1 capital increased by 994.9 million euros or 16.8% to 6 926.9 million euros, thanks to the sizeable allocation to the Fund for General Banking Risks and the issue of 1 492 million euros' worth of preference shares, 1 039 million euros of which has been included in Tier-1 capital. Only 15% of Tier-1 capital can be accounted for by preference shares, consequently, the remainder of the preference shares have been included in Tier-2 capital.

To strengthen the CAD ratio, the following issues were also undertaken in 1999:

- a subordinated convertible bond loan in the amount of 250 million euros, which the KBC Bank and Insurance Holding Company subscribed to;
- subordinated certificates and time deposit accounts for an amount of 1 535 million euros, which were placed via the branches; 380 million euros of this amount is to be included in Tier-3 capital;
- 1 297 million euros were raised via KBC International Finance issue programmes.

The risk assets went up by 13.2%. If the scope of consolidation had remained unchanged, the increase would have come to 7.6%. Organic growth was accounted for chiefly by the credit institutions in Belgium and the Irish subsidiaries. The increase in the weighted risk volume is attributable entirely to the increase in lending (both on- and off-balance-sheet), which is being curtailed to some extent by the downscaling of market risks.

Accordingly, despite the major acquisitions made in 1999, KBC Bank still managed to exceed its in-house target of 7% and 11% for the Tier-1 and CAD ratios, respectively. Via the strict containment of organic growth in risk assets, internal capital growth and a better spread of the capital employed across the various activities based on their risk/return ratio, KBC Bank aims in the years ahead to keep its solvency ratios at their present levels, which are significantly higher than the regulatory requirements.

4.2 KBC Insurance

Solvency, KBC Insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
Paid-up share capital	28 531	28 531	28 955	1.5%
Share premium account	35 112	35 112	121 743	246.7%
Reserves	769 660	1 103 110	1 167 291	5.8%
Goodwill on consolidation	11 315	10 133	-53 838	-
Translation differences	-4 138	-6 169	-7 215	17.0%
Total Group equity	**840 481**	**1 170 719**	**1 256 935**	**7.4%**
Dividend payout, KBC Insurance	0	-117 692	-126 172	7.2%
Third-party interests	51 484	54 896	57 453	4.7%
Total capital and reserves	**891 966**	**1 107 923**	**1 188 216**	**7.2%**
Subordinated liabilities	20 575	21 815	21 815	0.0%
Total capital resources	**912 541**	**1 129 738**	**1 210 030**	**7.1%**
Items to be deducted				
a) formation expenses	-22	0	0	-
b) intangible fixed assets	-3 653	-78 597	-71 146	-9.5%
c) goodwill on consolidation	-60 117	-14 027	-12 280	-12.5%
Subtotal	**-63 792**	**-92 625**	**-83 426**	**-9.9%**
TOTAL	**848 749**	**1 037 113**	**1 126 604**	**8.6%**
Unrealized gains	1 586 102	2 344 561	1 873 242	-20.1%
+ portion of goodwill on consolidation of CCF which has not been written off	0	0	16 422	-
Total, including unrealized gains	**2 434 850**	**3 381 674**	**3 016 268**	**-10.8%**
Required solvency margin for 'non-life' business				
'Non-life' and industrial accidents-legal lines	113 139	109 722	122 240	11.4%
Annuities	4 751	4 981	5 405	8.5%
Total	**117 890**	**114 703**	**127 645**	**11.3%**
Required solvency margin for 'life' business				
First calculation	136 361	166 310	178 516	7.3%
Second calculation	46 717	50 774	59 951	18.1%
Total, class 21	**183 077**	**217 084**	**238 467**	**9.9%**
Unit-linked (class 23)	303	2 108	11 954	467.2%
Total	**183 380**	**219 192**	**250 422**	**14.2%**
TOTAL REQUIRED SOLVENCY MARGIN	**301 270**	**333 894**	**378 066**	**13.2%**
Explicit solvency ratio	**282%**	**311%**	**298%**	**-**
Implicit solvency ratio	**808%**	**1013%**	**798%**	**-**
Explicit surplus	**547 478**	**703 219**	**748 538**	**6.4%**
Implicit surplus	**2 133 580**	**3 047 780**	**2 638 201**	**-13.4%**

In 1999, the total capital resources of KBC Insurance rose by 80.3 million euros to 1 210 million euros. The main changes were occasioned by:

- the retention of 145.2 million euros' worth of profit;
- the writing-off of 66 million euros' worth of goodwill on acquisitions made from 1 January 1999.

Unrealized gains fell by 438 million euros as a result of the increase in long-term interest rates.
The explicit solvency ratio, i.e. the ratio between the solvency capital excluding unrealized gains and the required solvency ratio, fell slightly from 311% in 1998 to 298% at the end of 1999. The corresponding solvency surplus reached 748.5 million euros.

5 Contribution of KBC Bank in accordance with the lay-out required by law for the financial statements of Belgian credit institutions

Shown below is the contribution made by KBC Bank to the KBC Bank and Insurance Holding Company, in accordance with the lay-out required for banks' financial statements with regard to the assets, liabilities and the profit and loss account. These figures differ from those in the consolidated annual accounts of KBC Bank submitted at the close of the financial year to the National Bank of Belgium for reasons that have to do with the elimination of consolidation entries at the level of the KBC Bank and Insurance Holding Company.

Assets

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
I Cash in hand, balances at central banks and post office banks	349 416	367 531	582 505	58.5%
II Treasury bills eligible for refinancing at the central bank	2 493 166	1 940 869	2 440 283	25.7%
III Loans and advances to credit institutions	42 935 001	29 639 697	17 189 064	-42.0%
A Repayable on demand	4 142 778	8 008 290	2 098 366	-73.8%
B Other loans and advances (with agreed maturity dates or periods of notice)	38 792 224	21 631 407	15 090 698	-30.2%
IV Loans and advances to customers	47 427 443	53 412 201	64 633 988	21.0%
V Bonds and other fixed-income securities	41 534 117	44 234 664	46 444 597	5.0%
A Issued by public bodies	30 086 045	32 536 623	32 430 749	-0.3%
B Issued by other borrowers	11 448 072	11 698 041	14 013 849	19.8%
VI Shares and other variable-yield securities	1 843 848	2 295 574	3 201 870	39.5%
VII Financial fixed assets	492 399	468 454	1 188 417	153.7%
A Companies consolidated according to the equity method				
1 Participating interests	3 533	64 133	741 978	1 056.9%
B Other companies				
1 Participating interests, shares	485 355	363 538	432 767	19.0%
2 Subordinated loans	3 510	40 782	13 672	-66.5%
VIII Formation expenses and intangible fixed assets	28 465	57 568	89 016	54.6%
IX Goodwill on consolidation	61 853	62 763	53 064	-15.5%
X Tangible fixed assets	921 408	1 114 293	1 510 163	35.5%
XII Other assets	556 240	885 357	711 972	-19.6%
XIII Deferred charges and accrued income	5 159 132	5 284 248	8 438 112	59.7%
TOTAL ASSETS, BANKING	**143 802 488**	**139 763 218**	**146 483 052**	**4.8%**

Liabilities

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
I Amounts owed to credit institutions	50 091 280	36 066 983	28 871 450	-20.0%
A Repayable on demand	3 539 365	3 855 015	1 436 909	-62.7%
B Amounts owed as a result of the rediscounting of trade bills	230 916	131 364	144 274	9.8%
C Other debts (with agreed maturity dates or periods of notice)	46 321 000	32 080 604	27 290 267	-14.9%
II Amounts owed to customers	54 977 411	63 516 382	71 882 057	13.2%
A Savings deposits	17 785 058	18 353 149	20 109 841	9.6%
B Other debts	37 192 353	45 163 232	51 772 216	14.6%
1 Repayable on demand	11 093 204	13 641 895	15 700 539	15.1%
2 With agreed maturity dates or periods of notice	26 088 287	31 514 839	36 071 677	14.5%
3 As a result of the rediscounting of trade bills	10 863	6 499	0	-100.0%
III Debts represented by securities	23 542 487	21 445 942	21 237 183	-1.0%
A Bonds and other fixed-income securities in circulation	18 454 074	15 231 894	13 379 222	-12.2%
B Other debt instruments	5 088 413	6 214 048	7 857 961	26.5%
IV Other liabilities	1 570 006	1 978 531	1 957 307	-1.1%
V Accrued charges and deferred income	4 370 355	5 334 264	7 837 987	46.9%
VI Provisions and deferred taxes				
A Provisions for liabilities and charges	360 459	502 716	598 938	19.1%
1 Pensions and similar commitments	19 070	85 910	72 542	-15.6%
2 Taxation	37 316	52 066	55 743	7.1%
3 Other liabilities and charges	304 072	364 740	470 653	29.0%
B Deferred taxes	5 152	6 832	10 723	57.0%
VII Fund for General Banking Risks	900 657	1 604 057	1 825 476	13.8%
VIII Subordinated liabilities	3 972 636	4 580 643	6 219 570	35.8%
TOTAL LIABILITIES, BANKING (excluding capital and reserves)	**134 917 151**	**128 851 650**	**132 395 644**	**2.8%**

Profit and loss account

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
I Interest receivable and similar income	8 026 792	8 273 861	8 437 037	2.0%
of which: income from fixed-income securities	0	2 663 428	2 628 732	-1.3%
II Interest payable and similar charges	-6 198 743	-6 409 717	-6 380 391	-0.5%
III Income from variable-yield securities	84 636	95 859	100 248	4.6%
A From shares and other variable-yield securities	59 559	77 082	75 203	-2.4%
B From participating interests and shares constituting financial fixed assets	25 077	18 777	25 045	33.4%
IIIbis Share in the result of the companies consolidated according to the equity method	-385	12 174	100 456	725.2%
IV Commission receivable	590 723	838 855	1 050 236	25.2%
V Commission payable	-149 499	-228 915	-293 840	28.4%
VI Profit (Loss) on financial transactions	508 116	731 486	636 182	-13.0%
A On the trading of securities and other financial instruments	197 389	153 162	170 561	11.4%
B On the disposal of investment securities	310 727	578 325	465 621	-19.5%
VII General administrative expenses	-1 623 342	-1 752 869	-2 124 439	21.2%
A Remuneration, social security costs and pensions	-1 117 078	-1 178 642	-1 369 274	16.2%
B Other administrative expenses	-506 264	-574 227	-755 165	31.5%
VIII Depreciation and write-downs on formation expenses, and on intangible and tangible fixed assets	-188 824	-218 094	-254 556	16.7%
IX Adjustments to write-downs (Write-downs) on receivables and write-back of provisions (Provisions) for Off-balance-sheet headings 'I Contingent liabilities' and 'II Commitments carrying a potential credit risk'	-142 121	226 649	-341 618	91.1%
X Adjustments to write-downs (Write-downs) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	-3 314	-39 353	21 470	-
XI Utilization and write-back of provisions for liabilities and charges other than those recorded under Off-balance-sheet headings 'I Contingent liabilities' and 'II Commitments carrying a potential credit risk'	105 453	98 757	109 851	11.2%
XII Provisions for liabilities and charges other than those referred to in Off-balance-sheet headings 'I Contingent liabilities' and 'II Commitments carrying a potential credit risk'	-124 360	-122 599	-106 287	-13.3%
XIII Transfer from (Transfer to) the Fund for General Banking Risks	-242 974	-612 405	-238 839	15.4%
XIV Other operating income	90 029	121 728	218 018	79.1%
XV Other operating charges	-75 861	-100 575	-154 643	53.8%
XVI Profit (Loss) on ordinary activities, before tax, of the companies included in the consolidation	656 325	914 843	778 886	-14.9%

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
XVII Extraordinary income	94 525	63 120	238 285	277.5%
A Adjustment to depreciation and write-downs on intangible and tangible fixed assets	42	85	622	627.9%
B Adjustments to write-downs on financial fixed assets	0	0	2 471	-
C Adjustments to provisions for extraordinary liabilities and charges	0	0	846	-
D Gains on the disposal of fixed assets	93 652	60 692	227 386	274.7%
E Other extraordinary income	830	2 343	6 961	197.1%
XVIII Extraordinary charges	-24 198	-124 082	-31 640	-74.5%
A Extraordinary depreciation and write-downs on formation expenses, and on intangible and tangible fixed assets	-258	-7 757	-14 135	82.2%
B Write-downs on financial fixed assets	-16 767	-317	-2 932	824.1%
C Provisions for extraordinary liabilities and charges	-3 065	-97 508	-1 203	-98.8%
D Losses on the disposal of fixed assets	-3 021	-3 725	-8 936	139.9%
E Other extraordinary charges	-1 087	-14 774	-4 434	-70.0%
XIX Profit (Loss), before tax, of the companies included in the consolidation	726 651	853 881	985 531	15.4%
XIXbis A Transfer to deferred taxes	-1 357	-3 025	-1 924	-36.4%
B Transfer from deferred taxes	1 102	1 385	1 358	-1.9%
XX Income taxes	-201 562	-263 516	-182 192	-30.9%
A Income taxes	-212 569	-289 229	-212 154	-26.6%
B Adjustments to income taxes and amounts written back from tax provisions	11 006	25 713	29 963	16.5%
XXI Profit (Loss) of the companies included in the consolidation	524 835	588 724	802 773	36.4%
XXII Third-party interests in the result	18 744	9 691	88 045	808.5%
XXIII Group interests in the result	**506 091**	**579 033**	**714 728**	**23.4%**

6 Contribution of KBC Insurance in accordance with the lay-out required by law for the financial statements of Belgian insurance companies

Shown below is the contribution made by KBC Insurance to the KBC Bank and Insurance Holding Company, in accordance with the lay-out required for insurance companies' financial statements with regard to the assets, liabilities and the profit and loss account. These figures differ from those in the consolidated annual accounts of KBC Insurance submitted at the close of the financial year to the National Bank of Belgium for reasons that have to do with the elimination of consolidation entries at the level of the KBC Bank and Insurance Holding Company.

Assets

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
B Intangible assets	3 675	78 597	71 146	-9.5%
I Formation expenses	22	0	0	-
II Intangible fixed assets	3 653	78 597	71 146	-9.5%
1 Goodwill	1 798	1 549	66 476	4 192.2%
2 Other intangible fixed assets	1 855	77 466	4 163	-94.6%
3 Advance payments	0	1 131	508	-
Bbis Goodwill on consolidation	60 117	14 027	12 280	-12.5%
C Investments	6 146 923	7 457 809	8 188 137	9.8%
I Land and buildings	151 296	150 324	144 854	-3.6%
1 For own activities	43 483	42 365	38 113	-10.0%
2 Other	107 813	107 958	106 742	-1.1%
II Investments in companies consolidated according to the equity method and participating interests	375 737	83 022	159 611	92.3%
- Affiliated companies	68 563	6 508	14 940	129.6%
1 Participating interests	68 563	6 508	8 667	33.2%
2 Debt securities issued by, and loans to, these companies	0	0	6 273	-
- Other companies linked by participating interests	263 606	29 440	33 495	13.8%
3 Participating interests	252 098	21 504	33 495	55.8%
4 Debt securities issued by, and loans to, these companies	11 508	7 936	0	-100.0%
- Companies consolidated according to the equity method	43 568	47 074	111 176	136.2%
5 Participating interests	43 568	47 074	111 176	136.2%
III Other financial investments	5 518 280	7 114 149	7 773 168	9.3%
1 Shares, participating interests and other variable-yield securities	682 361	1 686 356	2 103 373	24.7%
2 Bonds and other fixed-income securities	4 306 536	4 931 205	5 338 588	8.3%
3 Participation in investment pools	31 593	38 260	38 971	1.9%
4 Loans guaranteed by mortgages	346 421	319 317	195 686	-38.7%
5 Other loans	26 096	22 529	11 228	-50.2%
6 Deposits with credit institutions	121 539	112 863	78 740	-30.2%
7 Other	3 735	3 620	6 580	81.8%
IV Deposits with ceding companies	101 610	110 314	110 503	0.2%
D Investments for the benefit of life assurance policyholders who bear the investment risk	30 285	211 043	1 195 446	466.4%
Dbis Technical provisions, reinsurers' share	221 198	229 611	221 414	-3.6%
I Provision for unearned premiums and unexpired risks	6 399	3 516	3 529	0.4%
II Life assurance provision	4 130	4 991	4 255	-14.7%
III Provision for claims outstanding	206 991	219 314	210 666	-3.9%
IV Provision for bonuses and rebates	41	0	0	-
V Other technical provisions	3 637	1 791	2 964	65.5%

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
E Debtors	228 448	274 419	258 996	-5.6%
I Debtors arising out of direct insurance operations	138 538	139 660	135 311	-3.1%
1 Policyholders	46 540	46 823	49 915	6.6%
2 Intermediaries	65 227	65 832	59 131	-10.2%
3 Other	26 771	27 006	26 264	-2.7%
II Debtors arising out of reinsurance operations	36 037	51 065	58 947	15.4%
III Other debtors	53 873	83 694	64 739	-22.6%
F Other assets	65 088	66 313	65 968	-0.5%
I Tangible assets	19 100	17 896	14 462	-19.2%
II Cash at bank and in hand	42 946	46 124	51 000	10.6%
IV Other	3 043	2 293	506	-77.9%
G Deferred charges and accrued income	169 539	194 409	203 883	4.9%
I Accrued interest and rent	165 132	188 831	200 138	6.0%
II Deferred acquisition costs	2 013	1 695	1 477	-12.8%
2 Life assurance business	2 013	1 695	1 477	-12.8%
III Other deferred charges and accrued income	2 394	3 883	2 267	-41.6%
TOTAL ASSETS, INSURANCE	**6 925 275**	**8 526 228**	**10 217 270**	**19.8%**

Liabilities

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
C Technical provisions	5 617 204	6 598 366	7 045 410	6.8%
I Provision for unearned premiums and unexpired risks	231 535	202 309	198 839	-1.7%
II Life assurance provision	3 413 150	4 162 741	4 467 156	7.3%
III Provision for claims outstanding	1 839 157	1 974 404	2 083 340	5.5%
IV Provision for bonuses and rebates	25 302	22 199	22 321	0.5%
V Equalization and catastrophe provision	63 226	187 928	191 248	1.8%
VI Other technical provisions	44 835	48 785	82 505	69.1%
D Technical provisions for life assurance policyholders who bear the investment risk	30 285	210 779	1 195 446	467.2%
E Provisions for other liabilities and charges	35 697	108 490	177 266	63.4%
I Provisions for pensions and similar obligations	3 053	2 974	6 494	118.4%
II Provisions for taxation	892	60 003	57 329	-4.5%
III Other provisions	31 752	45 513	113 443	149.3%
F Deposits received from reinsurers	109 853	104 022	106 964	2.8%
G Creditors	193 582	293 722	420 576	43.2%
I Creditors arising out of direct insurance operations	49 301	66 569	68 614	3.1%
II Creditors arising out of reinsurance operations	14 912	6 212	22 596	263.8%
III Unsubordinated bond loans	302	50	0	-100.0%
2 Non-convertible loans	302	50	0	-100.0%
IV Amounts owed to credit institutions	7 948	81 753	165 563	102.5%
V Other creditors	121 119	139 139	163 803	17.7%
1 Amounts owed because of taxation, remuneration and social security charges	68 523	105 402	113 557	7.7%
a) Taxation	50 239	84 116	92 211	9.6%
b) Remuneration and social security charges	18 284	21 286	21 346	0.3%
2 Other	52 596	33 737	50 246	48.9%
H Accrued charges and deferred income	26 112	10 878	11 739	7.9%
TOTAL LIABILITIES, INSURANCE (excluding capital and reserves)	**6 012 734**	**7 326 257**	**8 957 401**	**22.3%**

Technical account, non-life insurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
1 Earned premiums, net of reinsurance	685 858	730 306	741 025	1.5%
a) Gross premiums	764 132	765 443	782 523	2.2%
b) Outward reinsurance premiums	-74 146	-62 479	-45 787	-26.7%
c) Adjustments to the gross provision for unearned income and unexpired risks	-252	28 355	4 270	-84.9%
d) Adjustments to the provision for unearned income and unexpired risks, reinsurers' share	-3 876	-1 013	20	-
2 Allocated investment return transferred from the non-technical account	152 767	249 996	227 853	-8.9%
3 Other technical income, net of reinsurance	566	1 167	2 522	116.1%
4 Claims incurred, net of reinsurance	-484 689	-488 244	-546 255	11.9%
a) Claims paid	396 259	394 329	436 828	10.8%
aa) Gross amount	443 683	434 992	468 854	7.8%
bb) Reinsurers' share	-47 424	-40 663	-32 026	-21.2%
b) Adjustments to the provision for claims outstanding, net of reinsurance	88 430	93 915	109 427	16.5%
aa) Gross amount	81 148	111 087	91 752	-17.4%
bb) Reinsurers' share	7 282	-17 172	17 675	-
5 Adjustments to other technical provisions, net of reinsurance	-5 154	-5 133	-33 476	552.2%
6 Bonuses and rebates, net of reinsurance	-437	-508	-517	1.8%
7 Net operating expenses	-227 034	-234 983	-247 753	5.4%
a) Acquisition costs	204 490	199 086	209 706	5.3%
c) Administrative expenses	41 275	47 772	46 018	-3.7%
d) Reinsurance commissions and profit participation	-18 731	-11 875	-7 971	-32.9%
8 Other technical charges, net of reinsurance	-8 922	-11 465	-12 143	5.9%
9 Adjustments to the equalization and catastrophe provision, net of reinsurance	-13 976	-124 222	-3 321	-97.3%
10 Balance of the technical account, non-life insurance	**98 979**	**116 915**	**127 935**	**9.4%**

Technical account, life assurance

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
1 Premiums, net of reinsurance	826 576	1 105 423	1 354 143	22.5%
a) Gross premiums	832 828	1 110 330	1 357 721	22.3%
b) Outward reinsurance premiums	-6 252	-4 907	-3 578	-27.1%
2 Investment income	219 995	338 146	442 732	30.9%
e) Allocated investment return transferred from the non-technical account	219 995	338 146	400 737	18.5%
3 Value adjustments on investments under assets heading D	559	14 000	126 660	804.7%
4 Other technical income, net of reinsurance	0	221	183	-16.9%
5 Claims incurred, net of reinsurance	-140 458	-420 177	-406 862	-3.2%
a) Claims paid	133 616	394 529	398 912	1.1%
aa) Gross amount	134 825	398 980	399 803	0.2%
bb) Reinsurers' share	-1 209	-4 451	-891	-80.0%
b) Adjustments to the provision for claims outstanding, net of reinsurance	6 843	25 647	7 950	-69.0%
aa) Gross amount	7 634	25 658	9 532	-62.8%
bb) Reinsurers' share	-791	-11	-1 583	14 087.2%
6 Adjustments to other technical provisions, net of reinsurance	-768 083	-850 015	-1 292 673	52.1%
a) Adjustments to the life assurance provision, net of reinsurance	768 021	669 632	307 510	-54.1%
aa) Gross amount	769 210	669 872	307 677	-54.1%
bb) Reinsurers' share	-1 190	-240	-167	-30.4%
b) Adjustments to other technical provisions, net of reinsurance	63	180 383	985 163	446.2%
7 Bonuses and rebates, net of reinsurance	-1 924	-1 680	-8	-99.5%
8 Net operating expenses	-68 256	-82 662	-96 418	16.6%
a) Acquisition costs	57 714	67 069	75 566	12.7%
b) Adjustments to deferred acquisition costs	564	295	217	-26.4%
c) Administrative expenses	13 338	16 227	20 772	28.0%
d) Reinsurance commissions and profit participation	-3 361	-930	-137	-85.3%
10 Value adjustments on investments under assets heading D	0	-368	-7 909	2 049.9%
11 Other technical charges, net of reinsurance	-2 108	-2 112	-2 984	41.3%
13 Balance of the technical account, life assurance	**66 299**	**100 775**	**116 864**	**16.0%**

Non-technical account

(in thousands of EUR)	31 Dec. 1997 Pro forma	31 Dec. 1998	31 Dec. 1999	Change
1 Balance of the technical account, non-life insurance	98 979	116 915	127 935	9.4%
2 Balance of the technical account, life assurance	66 299	100 775	116 864	16.0%
3 Investment income	539 933	860 415	904 982	5.2%
a) Income from investments in affiliated companies or companies linked by participating interests	22 794	21 639	1 489	-93.1%
b) Income from other investments	381 417	428 545	467 127	9.0%
aa) Income from land and buildings	21 053	21 889	21 544	-1.6%
bb) Income from other investments	360 364	406 656	445 583	9.6%
c) Value re-adjustments on investments	11 921	3 008	17 639	486.4%
d) Gains on the realization of investments	119 429	403 012	407 232	1.0%
e) Share in the result of the companies consolidated according to the equity method	4 372	4 211	11 495	173.0%
Profit	4 526	4 211	12 285	191.8%
Loss	-154	0	-790	-
5 Investment charges	-55 549	-68 129	-133 980	96.7%
a) Investment management charges	40 419	27 506	107 203	289.7%
b) Value adjustments on investments	12 309	31 233	12 104	-61.2%
c) Losses on the realization of investments	2 821	9 390	14 673	56.3%
6 a) Allocated investment return transferred to the non-life insurance technical account	-152 767	-249 996	-227 853	-8.9%
b) Allocated investment return transferred to the life assurance technical account	-219 995	-338 146	-442 732	30.9%
7 Other income	12 938	13 155	18 600	41.4%
8 Other charges	-28 948	-31 175	-35 871	15.1%
8bis Profit (Loss) on ordinary activities, before tax of the companies included in the consolidation	260 890	403 814	327 944	-18.8%
11 Extraordinary income	7 664	35 492	504	-98.6%
12 Extraordinary charges	-8 782	-90 997	-12 208	-86.6%
13 Extraordinary profit (loss) of the consolidated companies				
Profit	0	0	-11 704	-78.9%
Loss	-1 118	-55 505	0	-
15 Income taxes	-55 135	-116 846	-41 039	-64.9%
15bis Deferred taxes	83	44	274	529.1%
16 Consolidated profit (loss)	204 719	231 506	275 476	19.0%
16bis Third-party interests in the result	3 727	4 824	4 138	-14.2%
16ter Group interests in the result	200 992	226 682	271 337	19.7%

7 Report of the Board of Auditors

Report of the Board of Statutory Auditors on the consolidated financial statements of the KBC Bank and Insurance Holding Company to the annual general meeting of shareholders

In accordance with the provisions of the law and the Articles of Association, we have the honour to report to you on the audit assignment which was entrusted to us.

We have audited the consolidated financial statements for the financial year ended 31 December 1999, which have been prepared on the responsibility of the Board of Directors of the company and which show a balance sheet total of 156 218 445 (000) euros and, on the profit and loss account, a consolidated profit for the financial year (Group interests) of 969 746 (000) euros. We have also examined the annual report.

Unqualified audit opinion on the consolidated financial statements

Our audits were conducted in accordance with the standards of the *Instituut der Bedrijfsrevisoren* (Belgian Institute of Recognized Auditors). These standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, account taken of Belgian legal and regulatory requirements.

In accordance with these standards, we have taken into account the administrative and accounting organization of the company, as well as the internal control procedures. The officers in charge of the company have provided the information and explanations required for our audits. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the valuation rules, the basis of consolidation, the significant accounting estimates made by the company and the overall presentation of the consolidated financial statements. The financial statements of the Belgian companies included in the consolidation were audited by the statutory auditors, the financial statements of the foreign companies included in the consolidation by external auditors. We have based our opinion on their certifications. We believe that our audits and those of our colleagues and of the external auditors who examined the financial statements of the subsidiaries provide a reliable basis for our opinion.

In our opinion, in compliance with the applicable Belgian legal and regulatory requirements, the consolidated financial statements closed as at 31 December 1999 of the KBC Bank and Insurance Holding Company NV give a true and fair view of the assets and liabilities, the financial situation and the results of the Group, and the explanations provided in the notes are adequate.

Additional certifications

We supplement our report with the following certifications, which do not, however, have any impact on the scope of our audit opinion on the financial statements for the 1999 financial year:

- The consolidated annual report contains the information required by law and is consistent with the financial statements.
- As indicated in the valuation rules accompanying the consolidated financial statements, the positive goodwill on the consolidation of participating interests acquired subsequent to 1 January 1999 was deducted directly from the consolidated capital and reserves in accordance with the derogation authorized by the Belgian Banking and Finance Commission pursuant to Article 8 of the Royal Decree of 1 September 1986 on the consolidated financial statements of holding companies. The goodwill relating to the participating interests acquired during the 1999 financial year comes to a total of 1 634.3 million euros. This amount was deducted in full from the goodwill on consolidation, aside from the theoretical depreciation charges of 114.3 million euros, which were deducted from the reserves.
- The present report does not cover the *pro forma* comparative figures for 1997.

Brussels, 16 March 2000

BCV Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren
Represented by
Frans L. Theeuwes Luc Van Couter

BCV PricewaterhouseCoopers
Bedrijfsrevisoren
Represented by
Felix Hendrickx

The company annual accounts of the KBC Bank and Insurance Holding Company NV are presented below in abridged form. As required by law, the statutory annual accounts, the report of the Board of Directors and the Statutory Auditors' report are filed with the National Bank of Belgium. These documents are available on request from:

KBC Bank and Insurance Holding Company NV
Strategy & Expansion Division
Havenlaan 2
B-1080 Brussels

The auditors have delivered an unqualified audit opinion on the statutory annual accounts of the KBC Bank and Insurance Holding Company NV.

6.30 p.m. - Sports hall, Erps-Kwerps

Company annual accounts of the KBC Bank and Insurance Holding Company

I Balance sheet, profit and loss account and profit appropriation

1.1 Balance sheet after profit appropriation

Assets

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
Fixed assets	**4 568 006**	**5 873 410**
IV Financial fixed assets	4 568 006	5 873 410
A Affiliated companies	4 568 006	5 848 908
1 Participating interests	4 568 006	5 573 915
2 Amounts receivable	0	274 993
C Other financial fixed assets	0	24 502
1 Participating interests	0	24 502
Current assets	**55 505**	**61 774**
VII Amounts receivable within one year	18 077	13 107
B Other amounts receivable	18 077	13 107
IX Cash at bank and in hand	37 428	41 320
X Deferred charges and accrued income	0	7 347
Total assets	**4 623 511**	**5 935 184**

Liabilities

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
Capital and reserves	**3 985 896**	**4 274 670**
I Capital	580 697	582 397
A Subscribed capital	580 697	582 397
II Share premium account	1 901 581	1 927 629
IV Reserves	1 501 862	1 761 937
A Legal reserve	58 070	58 240
B Reserves not available for distribution	1 339	1 339
C Untaxed reserves	192 616	192 522
D Reserves available for distribution	1 249 837	1 509 836
V Profit brought forward	1 754	2 707
Creditors	**637 617**	**1 660 514**
IX Amounts payable within one year	636 607	1 659 861
B Financial debts		
1 Credit institutions	301 166	259 980
2 Commercial paper	0	1 015 734
E Amounts owed because of taxation, remuneration and social security charges		
1 Taxes	9 881	15 220
2 Remuneration and social security charges	0	52
F Other creditors	325 560	368 875
X Accrued charges and deferred income	1 010	653
Total liabilities	**4 623 511**	**5 935 184**

1.2 Profit and loss account

Charges

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
A Interest and other debt charges	6 724	16 691
B Other financial charges	0	4
C Services and sundry goods	1 846	1 781
D Remuneration, social security charges and pensions	0	444
E Various operating expenses	1	1
K Taxes	0	5 140
L Profit for the period	492 837	628 041
Total charges	**501 408**	**652 102**
N Profit for the period available for appropriation	492 895	628 135

Income

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
A Income from financial fixed assets	37	388 551
B Income from current assets	585	545
E Other operating income	2	2
I Gains on realization	500 784	263 004
Total income	**501 408**	**652 102**
M Transfers from untaxed reserves	59	94

1.3 Appropriation account

Appropriation account

(in thousands of EUR)	31 Dec. 1998	31 Dec. 1999
A Profit to be appropriated	494 299	629 889
1 Profit for the period available for appropriation	492 895	628 135
2 Profit brought forward from the previous financial year	1 404	1 754
C Appropriations to capital and reserves	-166 984	-260 170
1 To the legal reserve	23 206	170
2 To other reserves	143 778	260 000
D Profit (Loss) to be carried forward	-1 754	-2 707
1 Profit to be carried forward	1 754	2 707
F Profit to be paid out	-325 561	-367 012
1 Dividends	324 047	365 650
2 Directors' entitlements	1 514	1 362

Dividend

The Board of Directors will propose to the General Meeting of Shareholders that a gross dividend be paid out of 1.2300 euros. This corresponds to a net dividend per ordinary share of 0.9225 euros and a net dividend per share with VV strip of 1.0455 euros.

2 Notes to the company annual accounts

Note 1: Financial fixed assets

Financial fixed assets

(in thousands of EUR)	Affiliated companies	Amounts receivable	Participations in companies linked by participating interests
Carrying value as at 1 Jan. 1999	4 568 006	-	-
• Acquisitions	1 042 284	256 916	24 502
• Transfers	-36 375	-	-
• Other movements	-	18 077	-
Carrying value as at 31 Dec. 1999	**5 573 915**	**274 993**	**24 502**

The participating interests in affiliated companies comprise mainly the stakes the KBC Bank and Insurance Holding Company NV holds in KBC Bank NV and in KBC Insurance.
Shown below is the shareholder structure of KBC Bank NV and of KBC Insurance NV:

	KBC Bank NV		KBC Insurance NV	
	No. of shares	%	No. of shares	%
KBC Bank and Insurance Holding Company NV	361 775 623	99.35	467 857	-
KBC Bank NV	-	-	1	-
KBC Insurance NV	1	-	-	-
Centea NV	2 354 483	0.65	-	-
Total	**364 130 107**	**100.00**	**467 858**	**100.00**

The increase in the carrying value of the participating interests in affiliated companies is accounted for by the capital increase carried out by KBC Bank NV in the amount of 650 million euros, which was subscribed to by the KBC Bank and Insurance Holding Company, by the transfer of the participation in Fidea to KBC Insurance NV in exchange for KBC Insurance NV shares (299 million euros), and by the purchase of 5.55% of Československá Obchodní Banka (ČSOB) for 92.9 million euros. In addition, the holding company subscribed to an ACB (Automatically Convertible Bond) issue by KBC Bank in the amount of 250 million euros, maturing in 2006. This transaction accounts for most of the increase in the 'Amounts receivable from affiliated companies' item. The 'Other financial fixed assets' only comprise the stake the KBC Bank and Insurance Holding Company NV holds in Crédit Commercial de France (0.32%).

Note 2: Capital and reserves and shareholders

a) Changes in capital and reserves

Capital and reserves and shareholders

(in thousands of EUR)	Opening balance, 1 Jan. 1999	Capital increase for staff	Conversion, MCBs	Retained profit	Other changes	Closing balance, 31 Dec. 1999
Capital	580 697	972	728	-	-	582 397
Share premium account	1 901 581	19 859	6 189	-	-	1 927 629
Reserves	1 501 862	-	-	260 170	-95	1 761 937
Profit (Loss) brought forward	1 754	-	-	953	-	2 707
Capital and reserves	**3 985 896**	**20 831**	**6 915**	**261 123**	**-**	**4 274 670**

b) Changes in capital and share premium account

- **Shares**

  The capital of the KBC Bank and Insurance Holding Company NV comprises ordinary shares only, and there are no non-voting share certificates or shares issued. The company's shares are quoted on the First Market of the Brussels Stock Exchange.

- **Share capital and share premium account**

Changes in capital and share premium account

(in thousands of BEF)	Date	Capital	Share premium account	No. of shares
Capital increase on merger via acquisition of Fidelis NV	3 June 1998	22 841 478	74 009 265	28 950 530
Capital increase on contribution of shareholdings by Almanij NV	3 June 1998	23 307 530	75 010 578	29 541 229
Share split: 10 new for 1 old share	3 June 1998	23 307 530	75 010 578	295 412 290
Stripping of the VV shares	3 June 1998	23 307 530	75 010 578	295 412 290
Capital increase for personnel: Creation of 520 000 VV shares Conversion or contribution of 142 520 MCBs into VV shares	29 Dec. 1998	23 425 272	76 709 608	296 904 610
Conversion or contribution of MCBs	1 Jan. 1999 through 31 March 1999	23 428 536	76 737 371	296 945 980
Conversion of capital into euros	29 April 1999	580 778 244	1 902 269 748	296 945 980
Conversion or contribution of MCBs	29 April 1999 through 28 Dec. 1999	581 424 791	1 907 769 163	297 276 550
Capital increase for personnel and retired employees	30 Dec. 1999	582 396 543	1 927 628 544	297 772 342

As at 31 December 1999, the company's issued share capital amounted to 582 396 543.25 euros, represented by 297 772 342 shares, 24 395 602 of which are VV shares. Of these last, 495 792 will only be entitled to dividend from the 2000 financial year. The share capital is fully paid up.

During the course of the financial year, share capital increased by 1 699 213.06 euros.

495 792 new VV shares were issued as a result of a capital increase decided upon by the Board of Directors by virtue of its authority to raise capital and which was reserved for personnel and certain retired employees of the KBC Bank and Insurance Holding Company and its subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at the average price of the KBC Bank and Insurance Holding Company share during the period from 13 to 26 October 1999, less a discount of 9% for personnel and one of 7% for retired employees. A discount of this kind is in keeping with legal stipulations and is linked to a blocking period of five and two years, respectively. Through this capital increase, the KBC Bank and Insurance Holding Company aims to strengthen its ties with its personnel and with the personnel of its subsidiaries. Given the limited scope of the capital increase, the financial ramifications for existing shareholders are minor.

Further, 371 940 new shares were created during the course of the financial year via the contribution of 37 194 subordinated mandatory convertible bonds (MCBs), redeemable in KBC Bank and Insurance Holding Company shares.

As at 31 December 1999, there were a total of 1 184 079 1993/1996-2003 MCBs in circulation (for a nominal amount of 8 880 592 500 Belgian francs or 220 144 137.69 euros, with a base rate of 5.75% and maturing on 30 November 2003), which had not yet been contributed to the capital of the KBC Bank and Insurance Holding Company. The holders of these bonds are entitled, until 20 November 2003, to request that their MCBs be contributed according to a ratio of 10 new KBC Bank and Insurance Holding Company shares for 1 MCB. MCBs which have not been contributed by their holders will be automatically converted into new KBC Bank and Insurance Holding Company shares at maturity. This will result in the number of KBC Bank and Insurance Holding Company VV shares increasing by 11 840 790.

On 29 October 1998, the Board of Directors of the KBC Bank and Insurance Holding Company decided to proceed to a capital increase upon a new issue by KBC Bank of 2 654 867 MCBs (with a base rate of 3.5%, and maturing on 30 November 2008) for an amount of 185 920 125.6 euros. These MCBs were offered first to the existing KBC Bank and Insurance Holding Company shareholders and to the existing holders of MCBs issued by KBC Bank. The capital increase will be achieved either by the holders' contributing their MCBs before redemption or by their contributing their claim arising from the redemption, early or otherwise, of the MCBs.

The holders of MCBs can contribute their bonds to the capital of the KBC Bank and Insurance Holding Company from 1 December 2000 to 20 September 2008 according to a ratio of 1 new KBC Bank and Insurance Holding Company share for 1 MCB. The MCBs which are not contributed by the holders will automatically be converted into new KBC Bank and Insurance Holding Company shares at maturity, raising the number of VV shares of the KBC Bank and Insurance Holding Company by 2 654 867.

On 16 November 1998 (as modified by the decisions of 26 November and 9 December 1998), the Board of Directors of the KBC Bank and Insurance Holding Company decided to proceed to the issue of warrants entitling holders of bonds issued (for an amount of 950 000 000 German marks, maturing on 10 December 2005) by KBC International Finance (Curaçao) to contribute them during the life of the bonds to the capital of the KBC Bank and Insurance Holding Company at a subscription price which was initially set at 3 225 Belgian francs (converted, 79.95 euros) per new share to be issued. The maximum number of new KBC Bank and Insurance Holding Company shares to be issued on the basis of this initial subscription price comes to 6 077 261, or 2.05% of the total number of shares outstanding at the time of issue. These bonds were placed via the international capital market.

On 31 December 1999, there were also 20 warrants outstanding in the hands of Almanij NV, entitling the holder to subscribe until 30 June 2001 to 20 000 000 KBC Bank and Insurance Holding Company shares.

- **Amount by which capital may be increased**
  The authorization to increase capital may be exercised until 24 April 2002 for an amount of 203 032 489.93 euros.

c) Shareholders

As appears from the notifications received pursuant to the law of 2 March 1989 on the disclosure of major participations in listed companies and regulating public takeover bids, and to Articles 52 quinquies and 52 sexies of the co-ordinated laws on commercial companies, the shareholder structure is as follows:

- **Law of 2 March 1989**
  On 11 June 1998, Almanij NV, acting in its own name and as agent for a number of affiliated companies, disclosed that it had a shareholding of 71.28%. At that time, there were 295 412 290 KBC Bank and Insurance Holding Company shares and 1 318 505 1993/1996-2003 MCBs (which, on conversion, will grant entitlement to 10 KBC Bank and Insurance Holding Company shares per MCB) in circulation. Below is a breakdown of this participation:

Almanij NV	Schoenmarkt 33 B-2000 Antwerpen	202 051 390 shares (68.34%) 458 216 MCBs (34.75%)
KBC Insurance NV	Waaistraat 6 B-3000 Leuven	7 082 060 shares (2.40%) 43 410 MCBs (3.29%)
HSA-Spaarkrediet NV	Mechelsesteenweg 176-178 B-2018 Antwerpen	817 380 shares (0.28%) 8 663 MCBs (0.66%)
Fidelitas NV	Van Eycklei 14 B-2018 Antwerpen	484 180 shares (0.16%) 2 500 MCBs (0.19%)
Secura NV	Montoyerstraat 12 B-1040 Brussels	70 290 shares (0.02%) 100 MCBs (0.01%)
Delphi NV	Van Eycklei 14 B-2018 Antwerpen	10 000 MCBs (0.76%)
Delphi Leven NV	Van Eycklei 14 B-2018 Antwerpen	37 980 shares (0.01%)
AVM NV	Zwartzustersvest 21 B-2800 Mechelen	18 950 shares (0.01%)
Maatschappij voor Brand-herverzekering CV	Minderbroedersstraat 8 B-3000 Leuven	2 690 shares (0.001%) 11 MCBs (0.001%)
CBC Banque	Grote Markt 5 B-1000 Brussels	430 MCBs (0.03%)

This notification was made in consequence of the creation of the KBC Bank & Insurance Group within the Almanij Group.

- **Co-ordinated laws on commercial companies**
  From the notifications received pursuant to the co-ordinated laws on commercial companies, further holdings of shares were as follows as at 31 December 1999:

KBC Insurance NV	Waaistraat 6 B-3000 Leuven	7 082 060 (2.38%)
Centea NV	Mechelsesteenweg 176-178 B-2018 Antwerpen	817 380 (0.27%)
Fidea NV	Van Eycklei 14 B-2018 Antwerpen	1 240 178 (0.42%)
Secura NV	Montoyerstraat 12 B-1040 Brussels	92 570 (0.03%)
VITIS Life Luxembourg SA	Rue Schiller 1 L-2519 Luxembourg	38 000 (0.01%)
Maatschappij voor Brand-herverzekering CV	Minderbroedersstraat 8 B-3000 Leuven	2 690 (0.0009%)
KBC Securities NV	Vondelstraat 15 B-2060 Antwerpen	281 275 (0.09%)
KBC Derivatives NV	Sinter-Goedeleplein 14 B-1000 Brussels	1 035 255 (0.35%)

Together, these holdings represent 10 589 408 shares, or 3.56% of a total of 297 772 342 shares in circulation.

Note 3: Creditors

During the course of the 1999 financial year, the KBC Bank and Insurance Holding Company issued commercial paper intended primarily to fund the capital increase at KBC Bank NV and subscription to an MCB loan likewise issued by KBC Bank NV (see Note 1 to the company annual accounts). As at 31 December 1999, the outstanding balance of the commercial paper issued came to 1 015.7 million euros; most of the interest rate risk in respect of this paper was hedged via derivatives at the start of 2000. In 2000, the KBC Bank and Insurance Holding Company NV will issue Euro Medium-Term Notes to reduce the amount of commercial paper outstanding.

Note 4: Charges

The charges are accounted for by the debt-service charges and the operating costs incurred by the holding company. These operating expenses stem from KBC Group activities relating to acquisitions and external communication and comprise primarily staff charges, fees, travel expenses and the cost of publications.

Note 5: Income

The bulk of the income of the KBC Bank and Insurance Holding Company NV is accounted for by dividends, which can be broken down as follows for 1999:

KBC Bank	265 084 643 euros
KBC Insurance	103 095 598 euros
Fidea	14 595 938 euros

In addition, gains of 263 million euros were posted in 1999 on the contribution of the participating interest in Fidea to KBC Insurance NV.

GENERAL INFORMATION ON THE KBC BANK AND INSURANCE HOLDING COMPANY NV

Name: KB ABB CERA Bank and Insurance Holding Company NV, abbreviated to KBC Bank and Insurance Holding Company

Established: 9 February 1935 as the Kredietbank NV; the present name dates from 4 June 1998

Registered office: Havenlaan 2, 1080 Brussels

Brussels Trade Register: 77 445

Legal form: 'naamloze vennootschap' (public limited company) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company registered with the Belgian Banking and Finance Commission

Life: indefinite

Object: the company is a financial holding company which has as object the direct or indirect holding and management of shareholdings in other companies, including - but not restricted to - credit institutions, insurance companies and other financial institutions (Article 2 of the Articles of Association)

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The annual accounts have been filed with the National Bank of Belgium. Decisions concerning the appointment and dismissal of members of the Board of Directors are published in the 'Appendices to the Belgian Official Gazette'. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press, in newspapers and periodicals. Copies of the company's annual reports are available at its registered office. They are forwarded annually to the holders of registered shares and to those who have applied for a copy.

General Meeting of Shareholders

Each year, at the registered office of the company or elsewhere, as indicated in the convening notice, a general meeting is held on the final Thursday in April or, if that day is a legal holiday, on the last business day immediately preceding it, at eleven a.m. To be admitted to the general meeting, holders of bearer shares or bonds must deposit these securities at least four business days prior to the meeting at the registered office of the company or elsewhere, as indicated in the convening notice.

The holders of registered shares or bonds are likewise required to notify the company in writing at its registered office and within the same time constraints of their intention to attend the general meeting. Bondholders are entitled to attend the general meeting, but they have only advisory voting capacity.

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) E-mail: kbc.telecenter@kbc.be
Tel.: +32 (0)78 152 154 (English)
Fax: +32 (0)3 206 6 208

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
Corporate Affairs Division
Havenlaan 2
B-1080 Brussels

The annual report is also available on the Internet at: http://www.kbc.be.

If there are any problems regarding service, or if your branch is unable to help you, please contact:

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Customer Service Department
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B-3000 Leuven
Tel.: +32 (0)78 15 20 45
Fax: +32 (0)16 30 30 38
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KBC Insurance NV
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Waaistraat 6
B-3000 Leuven
Tel.: +32 (0)16 24 37 38
Fax: +32 (0)16 24 37 37
E-mail: ivo.van.ouytsel@abb.be

Shareholders

Information concerning the strategy and results of the KBC Group is available from:

KBC Bank and Insurance Holding Company NV
Strategy & Expansion Division
Dorette Webers, Investor Relations Manager
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B-1080 Brussels
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Fax: +32 (0)2 429 44 16
E-mail: dorette.webers@kbc.be or kbc.bvh@pophost.eunet.be

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

Editor in chief: Sven Everaert
Co-ordination and lay-out: Nancy Van der Auwermeulen
Language co-ordination: Kathleen De Decker
Translation: Patricia Hollinger
Frank Parker
Mark Graham
Peter Von Bergen
Sub-editing: Elke De Backer
Print co-ordination: Denis Breynaert
Photography: Fotokoncept
Printer: Van der Poorten

This annual report has been printed on paper which is not harmful to the environment

Editor: Piet Jaspaert, Havenlaan 2, B-1080 Brussels.

KBC
Banking & Insurance
Putting people first.