Base Prospectus

Arcade Finance p.l.c.

(incorporated as a public limited company in Ireland with registered number 435310)

€40,000,000,000 Programme for the issue of Notes

It is intended that Arcade Finance p.l.c. (the "**Issuer**") from time to time may issue notes (the "**Notes**") under the programme for the issue of Notes described herein (the "**Programme**"), subject to compliance with relevant laws, regulations and directives.

This document (the "**Base Prospectus**") comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in Ireland. This Base Prospectus supersedes and replaces in its entirety the base prospectus for the Programme which was issued on 28 March 2008.

The Base Prospectus has been approved by the Irish Financial Services Regulatory Authority (the "**Financial Regulator**") as competent authority under the Prospectus Directive. The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the European Economic Area (the "**EEA**").

Application has been made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List and trading on its regulated market. No assurance can be given that such applications will be successful.

In addition, Notes may be issued pursuant to the Programme which are listed on another stock exchange and/or admitted to trading on another market (which may or may not be regulated) and/or unlisted and/or not admitted to trading on any market, in each case as specified in the relevant Final Terms.

The Notes may be issued on the terms set out in this Base Prospectus and in final terms (the "**Final Terms**") entered into in connection therewith. Notes may also be issued under the Programme on terms set out in a separate prospectus or offering memorandum (each a "**Series Offering Document**") relating to such Notes which incorporates by reference the whole or any part of this Base Prospectus. Any Series Offering Document may constitute a prospectus for the purposes of the Prospectus Directive and relevant implementing measures in Ireland and, in any such case, such fact will be stated in the relevant Series Offering Document. Any Series Offering Document which does not constitute a prospectus for such purposes may, following its initial issue and the issue of the Notes to which it relates, be restated and as so restated may constitute a prospectus for such purposes. Any reference to the Final Terms of any Series of Notes shall, where a Series Offering Document is issued in connection with such Series, be deemed to be a reference to the terms and conditions of such Series as set out in such Series Offering Document.

Copies of each set of Final Terms will be available at the specified office set out below of the Issuer. In addition, a copy of each set of Final Terms in respect of a Series of Notes admitted to trading on the regulated market of the Irish Stock Exchange or the subject of a public offer within the EEA will be filed with the Financial Regulator.

The obligations of the Issuer under each Series of Notes will be secured by, *inter alia*, security interests in favour of the Trustee over the relevant Series Secured Assets (as defined in Condition 4(a)) as more particularly specified in the relevant Final Terms. If the net proceeds of the enforcement of the security for a Series of Notes are insufficient to meet in full the claims of all relevant secured parties (in accordance with the relevant order of priorities), none of the other assets of the Issuer (if any) will be available to meet the insufficiency and any outstanding liability of the Issuer shall be extinguished upon such enforcement regardless of any such insufficiency.

Payments of principal and interest in respect of the Notes will be made subject to withholding tax (if any) applicable to the Notes, without the Issuer being obliged to pay further amounts as a consequence.

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, and will not be guaranteed by, the Arranger, the Dealers, any Agent, the Portfolio Manager or the Trustee.

Notes may be issued in bearer form or in registered form. Notes may be issued in definitive form or may be held and cleared through Euroclear Bank S.A./N.V. of 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium ("**Euroclear**") or Clearstream Banking, société anonyme of 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg ("**Clearstream, Luxembourg**") or any other clearing system as may be specified in the relevant Final Terms.

Arranger and Dealer

KBC Bank NV

The date of this Base Prospectus is 29 June 2009

INTRODUCTION

Information in relation to the Issuer is set out on pages 30 and 31 of this Base Prospectus. The final terms of each Series of Notes of the Issuer (and related information) will be set out in the relevant Final Terms, which should be read together with this Base Prospectus. This Base Prospectus should be read and construed in conjunction with each relevant Final Terms and all other documents which are deemed to be incorporated by reference in the Base Prospectus and in the relevant Final Terms.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. None of the Trustee, Agents, Arranger, Dealers or Portfolio Manager accepts any responsibility for the information contained in this Base Prospectus.

The Final Terms relating to a Series will (if applicable) contain information relating to any underlying equity security, index, commodity, currency, debt security or other item(s) (each a "**Reference Item**") to which the relevant Notes relate and which is contained in such Final Terms. However, unless otherwise expressly stated in a Final Terms, any information contained therein relating to a Reference Item will only consist of extracts from, or summaries of, information contained in financial and other information released publicly by the issuer, owner or sponsor, as the case may be, of such Reference Item. The Issuer will, unless otherwise expressly stated in the applicable Final Terms, confirm that such extracts or summaries have been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the issuer, owner or sponsor, as the case may be, of such Reference Item, no facts have been omitted that would render the reproduced inaccurate or misleading.

No person has been authorised to give any information or to make any representations other than those contained in this Base Prospectus or any documents incorporated by reference herein in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this document has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer at any time.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Issuer in connection with the Notes. The Dealers accept no liability in relation to the information contained in this Base Prospectus or any other information provided by the Issuer in connection with the Notes.

This Base Prospectus (and any other information supplied in connection with the Notes) is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information

supplied in connection with the Notes, should purchase any of the Notes. Each investor contemplating purchasing any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and of the tax, accounting and legal consequences of an investment in any of the Notes for such investor. Each prospective purchaser of any of the Notes, in connection with their primary distribution or otherwise, shall have such knowledge and experience in financial and business matters that it is capable of evaluating the merits, risks and suitability of investing in the Notes.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Dealers to subscribe for, or purchase, any Notes. The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus come are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain further restrictions on offers and sales of Notes and distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus has been prepared on the basis that, except to the extent to which sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area (an "**EEA State**") which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any of the Dealers has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The information set forth herein, to the extent that it comprises a description of certain provisions of the documentation relating to the transactions described herein, is a summary and is not presented as a full statement of the provisions of such documentation. Such summaries are qualified by reference to and are subject to the provisions of such documentation.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**" and "**EUR**" are to the Euro and "**U.S.$**" and "**USD**" are to U.S. dollars.

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

INCORPORATION BY REFERENCE

This Base Prospectus shall be read and construed in conjunction with:

(i) the interim unaudited financial statements of the Issuer in respect of the six month period ending 31 October 2008; and

(ii) the audited financial statements of the Issuer for the period from the date of its incorporation to 30 April 2008 and the audit report thereon,

(together, the "**Accounts**") which have been filed with the Irish Stock Exchange and which shall be deemed to be incorporated in, and form part of, this Base Prospectus, save that any statement contained in any of the Accounts incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication, or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus.

The Conditions set forth in the base prospectuses dated 28 March 2007 and 28 March 2008 of the Issuer in respect of the Programme shall also be deemed to be incorporated into and to form part of this Base Prospectus.

Copies of the documents incorporated by reference in this Base Prospectus are available for viewing at the registered office of the Issuer specified below.

To the extent that only part of a document is incorporated by reference herein, the non-incorporated part of such document is either not relevant for an investor or is covered elsewhere in the Base Prospectus.

SUPPLEMENTARY INFORMATION

The Issuer shall prepare a supplement to this Base Prospectus in the circumstances required by, and in compliance with, Article 16.1 of the Prospectus Directive and relevant implementing measures in Ireland.

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SUMMARY OF THE PROGRAMME

The following summary of the Programme is qualified in its entirety by the remainder of this Base Prospectus and, with respect to each Series of Notes, by the relevant Final Terms. The Notes may be issued on such terms as may be agreed between the relevant Dealer(s) and the Issuer and, unless specified to the contrary in the relevant Final Terms, will be subject to the Terms and Conditions set out below. The relevant Final Terms will contain all relevant information concerning the Issuer and the Series of Notes to which it relates which does not appear in this Base Prospectus (as it may be supplemented from time to time – see "*Supplementary Information*" above).

This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus (including any documents incorporated herein by reference) as a whole, and also the relevant Final Terms. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area no civil liability will attach to the Issuer in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Base Prospectus before the legal proceedings are initiated.

Issuer	Arcade Finance p.l.c. The principal business activity of the Issuer is the issue of Series of Notes under the Programme and matters incidental and ancillary thereto. The Issuer has no employees and has four non-executive directors – see further "*The Issuer*" below.
The Programme	The Programme creates a framework under which the Issuer may issue Series of Notes from time to time. The proceeds of issue of each Series of Notes will be used by or on behalf of the Issuer in acquiring the Series Collateral (as defined in Condition 4(a)) specified in the relevant Final Terms and forming part of the Series Secured Assets (as defined in Condition 4(a)) on the date of issue of such Series and/or in making payments to the relevant Swap Counterparty under the relevant Swap Agreement (if any). See further "*Use of Proceeds and Expenses*" below.
Arranger	KBC Bank NV
Dealers	KBC Bank NV and any other Dealer appointed from time to time by the Issuer. The name(s) of the Dealer(s) for each Series will be stated in the relevant Final Terms.
Trustee	The Bank of New York Mellon
Principal Paying Agent and Registrar	The Bank of New York Mellon

Listing Agent	McCann FitzGerald Listing Services Limited
Portfolio Manager	KBC Asset Management NV
Administration Agent	KBC Asset Management NV
Distribution	Notes may be distributed by way of private or public placement and in each case on a non-syndicated or a syndicated basis.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in the currency of any country as may be agreed by the Issuer and the relevant Dealer(s) on a case by case basis.
Security	Pursuant to the Supplemental Trust Deed and/or the Series Pledge Agreement (as defined in Condition 4(a)) relating to the relevant Series, the Notes of a Series shall be secured by security interests in favour of the Trustee over the Issuer's assets and property relating to such Series. Such security interests may include security interests over the relevant Series Collateral (as defined in Condition 4(a)), the cash standing to the credit of the relevant Series Cash Account (as defined in Condition 4(a)) and the Issuer's rights under the relevant Series Documents (other than the relevant Supplemental Trust Deed and Series Pledge Agreement). No security created by the Issuer in respect of any Series of Notes shall benefit holders of any other Series of Notes issued by it.
Limited Recourse	Claims in respect of any shortfall remaining with respect to any Series of Notes of the Issuer after enforcement of the relevant Series Security (as defined in Condition 4(a)) and application of the proceeds thereof in accordance with the relevant Supplemental Trust Deed and the Conditions shall be extinguished and failure by the Issuer to make any payment in respect of any such shortfall shall in no circumstances constitute an Event of Default (as defined in Condition 14) under the Notes of any other Series. There is no intention to accumulate surpluses in the Issuer.
Form of Notes	The Notes may be issued in bearer form only ("**Bearer Notes**") or in registered form only ("**Registered Notes**"). Each Series of Bearer Notes will be represented by a temporary global note (each a "**Temporary Global Note**") initially, unless the Principal Paying Agent is notified to the contrary by the Issuer. Such Temporary Global Notes will be deposited in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, on the issue date with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Temporary Global Notes representing Notes which are not listed on the Official List and admitted to trading on the

regulated market of the Irish Stock Exchange or which are in respect of a Series intended to be cleared through a clearing system other than Euroclear or Clearstream, Luxembourg or delivered outside a clearing system, may be deposited in the manner agreed between the Issuer, the Principal Paying Agent and the relevant Dealer(s). No interest will be payable in respect of a Temporary Global Note except as described under "*Summary of Provisions Relating to the Notes while in Global Form*". Interests in Temporary Global Notes will be exchangeable for interests in permanent global notes (each a "**Permanent Global Note**") or, if so stated in the relevant Final Terms, for definitive notes (each a "**Definitive Note**") in bearer or registered form, as set out in the relevant Final Terms, in the case of Notes in bearer form after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in bearer form or registered form in the circumstances described under "*Summary of Provisions Relating to the Notes while in Global Form*".

Each Series of Notes in registered form may be represented (i) by one or more Global Certificates in registered form without Coupons, deposited on the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for Euroclear and Clearstream, Luxembourg or (ii) by Individual Certificates, as specified in the relevant Final Terms. See "*Subscription and Sale*". Global Certificates will be exchangeable for Individual Certificates in the limited circumstances set out therein. See "*Summary of Provisions Relating to Notes while in Global Form*". References to "**Noteholder**" mean the bearer of any Bearer Note and the Coupons relating to it or the person in whose name a Registered Note is registered (as the case may be) and to "**holder**" (in relation to a Note or Coupon) means the bearer of any Bearer Note, Coupon or the person in whose name a Registered Note is registered (as the case may be).

Denomination

Notes will be in such denominations as may be specified in the relevant Final Terms subject to a minimum denomination of €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Maturities

Subject as set out below and in compliance with all relevant laws, regulations and directives, the Notes issued pursuant to the Programme will have a minimum maturity of one year and may also be issued with no fixed maturity and in perpetual form.

Issue Price

Notes may be issued at their principal amount or at a discount or premium to their principal amount.

Method of Issue	The Notes will be issued in one or more series (each a "**Series**" or "**Series of Notes**"). Further Notes may be issued as part of an existing Series.
Fixed Rate Notes	Fixed interest will be payable on the date or dates in each year specified in the relevant Final Terms and at maturity.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined either: (iii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iv) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as indicated in the applicable Final Terms. The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes and will be specified in the relevant Final Terms.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both.
Index Linked Notes	Payments of interest in respect of Index Linked Interest Notes will be made by reference to a single index or a basket of indices and/or such formula as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms). Payments of principal in respect of Index Linked Redemption Notes will be calculated by reference to a single index or a basket of indices. Each nominal amount of Notes equal to the lowest Specified Denomination specified in the applicable Final Terms will be redeemed by payment of the Redemption Amount specified in the applicable Final Terms, or if not so specified, as defined in the Terms and Conditions of the Notes. If an Index Adjustment Event occurs, the Issuer may redeem the Notes as more fully set out under "*Terms and Conditions of the Notes*".
Equity Linked Notes	Payments of interest in respect of Equity Linked Interest Notes will be calculated by reference to a single equity security or basket of equity securities on such terms as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms). Payments of principal in respect of Equity Linked Redemption Notes will be calculated by reference to a single equity security or a basket of equity securities. Each nominal amount of Notes equal to the lowest Specified Denomination specified in the applicable Final

	Terms will be redeemed by payment of the Redemption Amount specified in the applicable Final Terms or, if not so specified, as defined in the Terms and Conditions of the Notes. Equity Linked Redemption Notes may also provide that redemption will be by physical delivery of a given number of Reference Item(s). If Potential Adjustment Events and/or De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, the Notes may be subject to adjustment or, if De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, redeemed, all as more fully set out under "*Terms and Conditions of the Notes*".
Additional Disruption Events *(Index Linked Notes and Equity Linked Notes only)*	If Additional Disruption Events are specified as applying in the applicable Final Terms, the Notes will be subject to adjustment or may be redeemed upon the occurrence of any of the Additional Disruption Events specified as applying in the applicable Final Terms.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).
Zero Coupon Notes	Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.
Credit Linked Notes	Notes with respect to which payment of principal and/or interest is linked to the credit of a specified entity or entities will be Credit Linked Notes and will be issued on such terms as the Issuer and the relevant Dealer may agree as indicated in the applicable Final Terms (see also Condition 12). If Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes at the Credit Event Redemption Amount, if Cash Settlement is specified in the applicable Final Terms, or by delivery of the Asset Amount, if Physical Delivery is specified in the applicable Final Terms, as more fully set out under "*Terms and Conditions of the Notes*".
Currency Linked Notes	Payments (whether in respect of principal or interest and/or whether at maturity or otherwise) in respect of Currency Linked Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).
Commodity Linked Notes	Payments (whether in respect of principal or interest and/or whether at maturity or otherwise) in respect of Commodity Linked Notes will be calculated by reference to a single commodity or basket of commodities on

such terms as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms).

Redemption Amounts

The applicable Final Terms relating to each Series of Notes will indicate either that the Notes of such Series cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default or on an illegality or as a consequence of the early termination of the related Swap Agreement (if any) or as a consequence of the acceleration or default of the relevant Series Collateral or, in the case of Index Linked Notes, following an Index Adjustment Event, or, in the case of Equity Linked Notes and if so specified as applying in the applicable Final Terms, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer, or, in the case of Index Linked Notes or Equity Linked Notes and if so specified in the applicable Final Terms, following an Additional Disruption Event or, in the case of Credit Linked Notes and if so specified as applying in the applicable Final Terms, following a Merger Event) or that such Notes will be redeemable at the option of the Issuer ("**Issuer Call**") and/or the Noteholders ("**Investor Put**") upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Other Notes

Terms applicable to any other type of Note which the Issuer and any Dealer or Dealers may agree to issue will be set out in the relevant Final Terms.

Taxation

If Condition 22(a) is specified as applicable in the applicable Final Terms, all payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within Ireland subject as provided in Condition 22(a). In the event that any such deduction is made, the Issuer will be required to pay additional amounts to cover the amounts so deducted.

If Condition 22(b) is specified as applicable in the applicable Final Terms, the Issuer shall not be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, presentation and surrender for payment, or enforcement of any Note and all payments made by the Issuer shall be made subject to any tax, duty, withholding or other payment which may be

required to be made, paid, withheld or deducted.

Status of Notes

Notes of a Series may be issued as senior ranking notes of such Series ("Senior Notes"), mezzanine ranking notes of such Series, which may be divided into eight sub-classes of Notes – see further Condition 3 (together "Mezzanine Notes") or subordinate ranking Notes of such Series ("Subordinated Notes"). The Notes and the Coupons of each Series will be secured obligations of the Issuer and, if specified in the relevant Final Terms as Senior Notes, rank and will rank *pari passu* without any preference among themselves and senior to the Mezzanine Notes and Subordinated Notes (if any) of the relevant Series. If Notes are specified in the relevant Final Terms as Mezzanine Notes of a particular class, they will rank *pari passu* without any preference among themselves and senior to any lower ranking classes of Mezzanine Notes of such Series and the Subordinated Notes of such Series (if any) but subordinate to any higher ranking classes of Mezzanine Notes of such Series and the Senior Notes of such Series. If Notes are specified in the relevant Final Terms as Subordinated Notes, they will rank *pari passu* and without any preference among themselves and subordinate to the Senior Notes and the Mezzanine Notes of the relevant Series. The Notes of each Series represent limited recourse obligations of the Issuer. Recourse in respect of any Series of Notes will be limited to the Series Secured Assets relating to that Series. Claims of Noteholders of a Series and, if applicable, any Swap Counterparty to any related Swap Agreement shall rank in accordance with the priorities specified in the relevant Supplemental Trust Deed.

Restrictions

So long as any of the Notes of any Series remain outstanding, the Issuer will not, without the consent of the Trustee, or except as contemplated by the Conditions and the Programme Documents, incur any other indebtedness for borrowed moneys, engage in any business, declare any dividends, have any employees or have any subsidiaries. See "*Terms and Conditions of the Notes — Restrictions*".

Cross Default

The Conditions of each Series of Notes will not contain any cross default provision.

Listing

Notes of a Series may be admitted to the Official List of the Irish Stock Exchange and to trading on the regulated market of the Irish Stock Exchange or as otherwise specified in the relevant Final Terms. Further, the relevant Final Terms may specify that a Series of Notes may not be listed on any stock exchange, or may be listed on one or more stock exchanges other than the Irish Stock Exchange and/or may be admitted to trading on one or more markets other than the regulated market of the Irish Stock Exchange or may not be admitted to trading on any market.

Governing Law	The Notes of each Series (including the Global Notes and the Global Certificates) and the Coupons shall be governed by Irish law.

RISK FACTORS

General

The following is a summary and is not intended to be an exhaustive description of all of the risks and investment considerations relevant to an investment in any Notes. Each prospective investor of Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes (i) is fully consistent with its (or if it is acquiring the Notes in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, (ii) complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it (whether acquiring the Notes as principal or in a fiduciary capacity) and (iii) is a fit, proper and suitable investment for it (or, if it is acquiring the Notes in a fiduciary capacity, for the beneficiary), notwithstanding the clear and substantial risks inherent in investing in or holding the Notes. In particular, investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should therefore consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as underlying securities for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules. The following investment considerations, alone or collectively, may reduce the return on the Notes and could result in the loss of all or a portion of a Noteholder's investment in the Notes. Each prospective purchaser of Notes is solely responsible for making its own independent appraisal of all such matters and such other matters as the prospective purchaser deems appropriate, in determining whether to purchase Notes and that an investment in the Notes is suitable for its investment purposes.

Risks Relating to the Notes

Limited Recourse

The Notes of each Series will be limited recourse obligations of the Issuer secured on the Series Secured Assets (as defined in Condition 4(a)) and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. The Issuer is a special purpose company established, *inter alia*, for the purpose of issuing Notes under the Programme. The holders of the Notes and Coupons of any Series shall have no recourse to the Issuer beyond the moneys derived by or on behalf of the Issuer in respect of the relevant Series Secured Assets. Any shortfall on realisation of the relevant Series Security (as defined in Condition 4(a)) shall be borne by the Noteholders and the Couponholders of that Series.

Further, the Trustee and the Noteholders will not be entitled at any time to petition or take any other step for the winding-up of, or the appointment of an examiner to, the Issuer. No person other than the Issuer will be obliged to make payments on the Notes.

Early Redemption for Tax or Legal Reasons

The Issuer may for specified tax or legal reasons, as detailed in Condition 7(b), (c) and (h) or as otherwise provided in the relevant Supplemental Trust Deed (as defined under "*Terms and Conditions of the Notes*" below), upon giving notice to Noteholders, redeem all Notes of a Series earlier than the Maturity Date.

No Tax Gross-Up on Certain Issues of Notes

If Condition 22(b) is specified as applicable in the applicable Final Terms, the Issuer shall not be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, presentation and surrender for payment, or enforcement of any Note and all payments made by the Issuer shall be made subject to any tax, duty, withholding or other payment which may be required to be made, paid, withheld or deducted.

Modification, Waivers and Substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders (but shall not be obliged to), agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (each as defined in the Master Trust Deed (as defined in "*Terms and Conditions of the Notes*" below) shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer.

The Calculation Agent

The Calculation Agent is required to calculate certain amounts in relation to the Notes. Noteholders may receive different distributions and/or payments as a result of roundings effected by the Calculation Agent.

Market, Liquidity and Yield Considerations

Notes may not have an established trading market when issued. There can be no assurance of a secondary market for any Notes or the liquidity of such market if one develops. Consequently, investors may not be able to sell their Notes readily or at prices that will enable them to realize a yield comparable to that of similar instruments, if any, with a developed secondary market.

Legality of Purchase

None of the Issuer, the Trustee, the Arranger or any Dealer, nor any affiliate of such persons has or assumes responsibility for the lawfulness of the acquisition of the Notes of any Series by a prospective purchaser of such Notes (whether for its own account or for the account of any third party), whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective purchaser (or any such third party) with any law, regulation or regulatory policy applicable to it.

Denomination

Notes will be in such denominations as may be specified in the relevant Final Terms subject to a minimum denomination of €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Priority of Claims

The ranking of the relative claims of, inter alios, the Noteholders of a Series and the Swap Counterparty (if any) over the Series Secured Assets will be specified in the applicable Final Terms. The claims of the Swap Counterparty (if any) may rank senior to those of Noteholders. The claims of the Trustee for its fees and expenses with respect to a series rank senior to the claims of the Noteholders of such Series.

Risks Relating to Particular Series of Notes

The Notes may not be a Suitable Investment for all Investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all the information contained in the applicable Final Terms;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal and/or interest payable in one or more currencies, or where the currency for principal and/or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition, an investment in the Equity Linked Notes, Index Linked Notes, Commodity Linked Notes, Credit Linked Notes, Currency Linked Notes (each as defined below) or other Notes linked to one or more Reference Item(s), may entail significant risks not associated with investments in a conventional debt security, including but not limited to, the risks set out below.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Wide Range of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features. Potential purchasers of Notes should be aware that

the range of Notes that may be issued under the Programme is such that the following statements are not exhaustive with respect to the types of Notes that may be issued under the Programme and any particular Series of Notes may have additional risks associated with it that are not described below.

Notes Subject to Optional Redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

In respect of Notes which are conventional debt securities, the Issuer may be expected to redeem such Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes

Dual Currency Notes may be redeemable by payment of either the par value amount or an amount determined by reference to the value of the Reference Item(s), which may be less than the par value amount. Interest payable on Dual Currency Notes may be calculated by reference to the value of one or more Reference Item(s).

Equity Linked Notes

The Issuer may issue Notes where the amount of principal ("**Equity Linked Redemption Notes**") and/or interest ("**Equity Linked Interest Notes**") payable is dependent upon the price of or changes in the price of an equity security or a basket of equity securities or where, depending on the price of or change in the price of an equity security or a basket of equity securities, on redemption the Issuer's obligation is to deliver specified assets (together "**Equity Linked Notes**").

Potential investors in any such Notes should be aware that, depending on the terms of the Equity Linked Notes (i) they may receive no or a limited amount of interest, (ii) payment of principal or interest or delivery of any specified assets may occur at a different time than expected and (iii) they may lose all or a substantial portion of their investment. In addition, movements in the price of the equity security or basket of equity securities may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price of the equity security or equity securities may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the price of the equity security or equity securities, the greater the effect on yield.

If the amount of principal and/or interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the price of the equity security or equity securities on principal and/or interest payable will be magnified.

If Disrupted Day is specified as applying in the applicable Final Terms, the Calculation Agent may determine that an event giving rise to a Disrupted Day (as defined in the Terms and Conditions of the Notes) has occurred at any relevant time. Any such determination may have an effect on the timing of valuation and consequently the value

of the Notes and/or may delay (i) any applicable interest payments, in the case of Equity Linked Interest Notes, or (ii) settlement in the case of Equity Linked Redemption Notes. Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

If De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, prospective purchasers should note that the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

In respect of Equity Linked Notes relating to an equity security or equity securities originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such equity security or equity securities is/are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, prospective purchasers should note that the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of the Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines in its sole and absolute discretion to be appropriate to preserve the economic terms of the Notes. Prospective purchasers should also note that the Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the relevant Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the relevant Valuation Time.

Where the Notes provide for physical delivery, the Calculation Agent may determine that a Settlement Disruption Event is subsisting. A Settlement Disruption Event is an event beyond the control of the Issuer, as a result of which, in the opinion of the Calculation Agent, delivery of the specified assets to be delivered by or on behalf of the Issuer in accordance with the Terms and Conditions of the Notes and/or the applicable Final Terms, is not practicable. Any such determination may affect the value of the Notes and/or may delay settlement in respect of the Notes.

The market price of such Notes may be volatile and may be affected by the time remaining to the redemption date, the volatility of the equity security or equity securities, the dividend rate (if any) and the financial results and prospects of the issuer or issuers of the relevant equity security or equity securities as well as economic, financial and political events in one or more jurisdictions, including factors affecting the stock exchange(s) or quotation system(s) on which any such securities may be traded.

Index Linked Notes

The Issuer may issue Notes where the amount of principal ("**Index Linked Redemption Notes**") and/or interest ("**Index Linked Interest Notes**") payable is dependent upon the level, or changes in the level, of an index or a basket of indices (together "**Index Linked Notes**").

Potential investors in any such Notes should be aware that, depending on the terms of the Index Linked Notes (i) they may receive no or a limited amount of interest, (ii) payment of principal or interest may occur at a different time than expected and (iii) they may lose all or a substantial portion of their principal investment. In addition, movements in the level of the index or basket of indices may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant level of the index or indices may affect the actual yield to investors, even if the average level is consistent with their

expectations. In general, the earlier the change in the level of an index or result of a formula, the greater the effect on yield.

If the amount of principal and/or interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the level of the index or the indices on principal and/or interest payable will be magnified.

If Disrupted Day is specified as applying in the applicable Final Terms, the Calculation Agent may determine that an event giving rise to a Disrupted Day has occurred at any relevant time. Any such determination may have an effect on the timing of valuation and consequently the value of the Notes and/or may delay (i) any applicable interest payments, in the case of Index Linked Interest Notes, or (ii) settlement, in the case of Index Linked Redemption Notes. Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

If an Index Adjustment Event occurs, prospective purchasers should note that the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

The market price of such Notes may be volatile and may be affected by the time remaining to the redemption date and the volatility of the level of the index or indices. The level of the index or indices may be affected by the economic, financial and political events in one or more jurisdictions, including the stock exchange(s) or quotation system(s) on which any securities comprising the index or indices may be traded.

Commodity Linked Notes

The Issuer may issue Notes where the amount of principal ("**Commodity Linked Redemption Notes**") and/or interest ("**Commodity Linked Interest Notes**") payable is dependent upon the price of or changes in the price of a commodity or a basket of commodities or where, depending on the price or change in the price of the commodity or basket of commodities, on redemption the Issuer's obligation is to deliver specified assets (together "**Commodity Linked Notes**").

Potential investors in any such Notes should be aware that depending on the terms of the Commodity Linked Notes (i) they may receive no or a limited amount of interest, (ii) payment of principal or interest or delivery of any specified assets may occur at a different time than expected and (iii) they may lose all or a substantial portion of their investment. In addition, the movements in the price of the commodity or basket of commodities may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price of the commodity or commodities may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the price or prices of the commodities, the greater the effect on yield.

If the amount of principal and/or interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the price of the commodity or commodities on principal, interest payable or the amount of specified assets deliverable will be magnified.

The market price of such Notes may be volatile and may depend on the time remaining to the redemption date and the volatility of the price of the commodity or commodities. The price of the commodity or commodities may be affected by economic, financial and political events in one or more jurisdictions, including factors affecting the exchange(s) or quotation system(s) on which any such commodities may be treated.

Credit Linked Notes

In the event of the occurrence of certain circumstances (which may include, amongst other things, Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium or Restructuring) in relation to a Reference Entity or Reference Entities, in each case as specified in the applicable Final Terms, the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount, calculated by reference to the value of the Reference Item(s) and/or to deliver the Reference Item(s). In addition, interest bearing Credit Linked Notes may cease to bear interest on or prior to the date of occurrence of such circumstances. The Issuer may issue Credit Linked Notes linked to the performance of two or more Reference Entities where the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount, calculated by reference to the value of the Reference Item(s) and/or to deliver the Reference Item(s), in each case, in relation to the first Reference Entity in respect of which a Credit Event has occurred ("**First to Default Credit Linked Notes**"). The Issuer may issue Credit Linked Notes linked to the performance of a portfolio of Reference Entities where the amount of principal and interest (if any) payable by the Issuer pursuant to such Credit Linked Notes is dependent on whether a Credit Event in respect of one or more Reference Entities has occurred ("**Portfolio Credit Linked Notes**").

If Merger Event is specified as applying in the applicable Final Terms, prospective purchasers should note that, in the event that in the determination of the Calculation Agent a Merger Event has occurred, the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

The Issuer's obligations in respect of Credit Linked Notes are irrespective of the existence or amount of the Issuer's credit exposure to a Reference Entity and the Issuer need not suffer any loss nor provide evidence of any loss as a result of the occurrence of a Credit Event.

Currency Linked Notes

The Issuer may issue Notes where the amount of principal ("**Currency Linked Redemption Notes**") and/or interest ("**Currency Linked Interest Notes**") payable is dependent upon movements in currency exchange rates or are payable in one or more currencies which may be different from the currency in which the Notes are denominated (together "**Currency Linked Notes**").

Potential investors in any such Notes should be aware that, depending on the terms of the Currency Linked Notes (i) they may receive no or a limited amount of interest, (ii) payment of principal or interest may occur at a different time or in a different currency than expected and (iii) they may lose all or a substantial portion of their investment. In addition, movements in currency exchange rates may be subject to significant fluctuations that may not correlate with changes in interest rates or other indices and the timing of changes in the exchange rates may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in currency exchange rates, the greater the effect on yield.

If the amount of principal and/or interest payable is dependent upon movements in currency exchange rates and is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the currency exchange rates on principal or interest payable will be magnified.

The market price of such Notes may be volatile and, if the amount of principal and/or interest payable is dependent upon movements in currency exchange rates, may depend

upon the time remaining to the redemption date and the volatility of currency exchange rates. Movements in currency exchange rates may be dependent upon economic, financial and political events in one or more jurisdictions.

Partly-Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable Rate Notes with a Multiplier or other Leverage Factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Interbank Offered Rate (LIBOR). The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Capped Floating Rate Notes

Capped Floating Rate Notes usually have an interest rate equal to the sum of a reference rate such as LIBOR and the specified margin (if any) subject to a maximum specified rate. The maximum amount of interest payable in respect of these Notes will occur when the sum of the reference rate and the specified margin (if any) equals the maximum specified rate. Investors in Capped Floating Rate Notes will therefore not benefit from any increase in the relevant reference rate which, when the specified margin is added to such reference rate, would otherwise cause such interest rate to exceed the maximum specified rate. The market value of these Notes would therefore typically fall the closer the sum of the relevant reference rate and the margin is to the maximum specified rate.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes Issued at a Substantial Discount or Premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks Relating to the Issuer

The Issuer is a Special Purpose Vehicle

The Issuer's primary business is the raising of money by issuing Notes for the purposes of purchasing financial assets and entering into related derivatives and other contracts. The Issuer has, and will have, no assets other than its issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of each Series of Notes or entry into other obligations from time to time (and any related profits and the proceeds of any deposits and investments made from such fees) and any assets on which Notes of a Series or other obligations are secured.

No Regulation of the Issuer by any Regulatory Authority

The Issuer is not required to be licensed, registered or authorised under any current securities, commodities or banking laws of its jurisdiction of incorporation and will operate without supervision by any authority in any jurisdiction. There is no assurance, however, that regulatory authorities in one or more jurisdictions would not take a contrary view regarding the applicability of any such laws to the Issuer. The taking of a contrary view by such regulatory authority could have an adverse impact on the Issuer or the holders of Notes.

An investment in any Notes does not have the status of a bank deposit and is not within the scope of any deposit protection scheme.

Fixed/Floating Security

Under Irish law, for a charge to be characterised as a fixed charge, it must be expressed to be such and the charge holder must be entitled to and must in practice exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. A security interest expressed to be of a fixed nature may be recharacterised as floating by an Irish court if the court determines that all of the above features are not present throughout the life of the arrangements.

Although certain of the security to be granted by the Issuer over Series Secured Assets in favour of the Trustee pursuant to the Trust Deed and/or Series Pledge Agreement (as defined in "*Terms and Conditions of the Notes*" below) may be expressed to be of a fixed nature, there can be no assurance that a court would not nevertheless recharacterise such security as floating. The priority of the holder of floating security is more vulnerable than that of the holder of fixed security in certain circumstances. See further "*Preferred creditors under Irish law*" below.

Preferred Creditors under Irish Law

Under Irish law, upon an insolvency or examinership of an Irish company such as the Issuer when applying the proceeds of assets subject to fixed security which have been realised in the course of a liquidation or receivership, the claims of a limited category of preferential creditors will take priority over the claims of creditors holding the relevant

fixed security. These preferred claims include the remuneration, costs and expenses properly incurred by any examiner of the company (which includes any borrowings made by an examiner to fund the company's requirements for the duration of his appointment) which have been approved by the Irish courts.

The interest of secured creditors in property and assets of an Irish company over which there is a floating charge only will rank behind the claims of certain preferential creditors on enforcement of such security. Preferential creditors include the Revenue Commissioners of Ireland, statutory redundancy payments due to employees (including where those employees have been made redundant as a result of the liquidation of the borrower) and money due to be paid by the Irish company in respect of employers contributions under any pension scheme.

The holder of a fixed security over the book debts of an Irish tax resident company (which would include the Issuer) may be required by the Revenue Commissioners of Ireland, by notice in writing from the Revenue Commissioners of Ireland, to pay to them sums equivalent to those which the holder received in payment of debts due to it by the company. Where the holder of the security has given notice to the Revenue Commissioners of Ireland of the creation of the security within 21 days of its creation, the holder's liability is limited to the amount of certain outstanding Irish tax liabilities of the company (including liabilities in respect of value added tax) arising after the issuance of the Revenue Commissioners of Ireland's notice to the holder of fixed security.

The Revenue Commissioners of Ireland may also attach any debt due to an Irish tax resident company by another person in order to discharge any liabilities of the company in respect of outstanding tax whether the liabilities are due on its own account or as an agent or trustee. The scope of this right of the Revenue Commissioners of Ireland has not yet been considered by the Irish courts and it may override the rights of holders of security (whether fixed or floating) over the debt in question.

In relation to the disposal of assets of an Irish tax resident company which are subject to security, a person entitled to the benefit of the security may be liable for tax in relation to any capital gains made by the company on a disposal of those assets on exercise of the security.

Examinership

Examinership is a court moratorium/protection procedure available under Irish company law. An examiner may be appointed to a company which is likely to be insolvent if the court is satisfied that there is a reasonable prospect of the survival of the company and all or part of its undertaking as a going concern. During the examinership period (70 days, or longer in certain circumstances) the company is protected from most forms of enforcement procedure and the rights of its secured creditors are largely suspended. Accordingly, if an examiner is appointed to the Issuer, the Trustee would be precluded from enforcing the security over any Series Secured Assets during the period of the examinership. An examiner has various powers during the examinership period, including power to deal with charged property of the company, repudiate certain contracts, and incur borrowing costs and other expenses some of which will take priority over rights of secured creditors. If the examiner concludes that it would facilitate the survival of the company as a going concern, he must formulate proposals for a compromise or scheme of arrangement in relation to the company. The members and creditors of the company will have an opportunity to consider any such proposals, and the proposals require court approval. A compromise or scheme of arrangement, if confirmed by the court, is binding on creditors (including secured creditors) and may result in amounts payable to creditors (including secured creditors) being reduced.

Introduction of International Financial Reporting Standards

The Issuer's Irish corporation tax position depends to a significant extent on the accounting treatment applicable to the Issuer. The accounts of the Issuer are required to comply with International Financial Reporting Standards ("**IFRS**") or with generally accepted accounting principles in Ireland ("**Irish GAAP**") which has been substantially aligned with IFRS. Companies such as the Issuer might, under either IFRS or Irish GAAP, be forced to recognise in their accounts movements in the fair value of assets that could result in profits or losses for accounting purposes which bear little relationship to the company's actual cash position. These movements in value may generally be brought into the charge to tax (if not relieved) as a company's tax liability on such assets broadly follows the accounting treatment. However, the taxable profits of a qualifying company within the meaning of section 110 of the Taxes Consolidation Act of Ireland 1997, as amended, (which it is anticipated that the Issuer will be) will be based on the profits that would have arisen to the company had its accounts been prepared under Irish GAAP as it existed at 31 December 2004. It is possible to elect out of such treatment and such election, if made, is irrevocable. If the Issuer makes such an election, then taxable profits or losses could arise to the Issuer as a result of the application of IFRS or current Irish GAAP that are not contemplated in the cash-flows for the transaction and as such may have a negative effect on the Issuer and its ability to make payments to the Noteholders. The Issuer will covenant in Clause 11.29 of the Master Trust Deed that, if its cash flows would thereby be affected adversely, no such election will be made.

Risks Relating to the Series Secured Assets

No Investigations

No investigations, searches or other enquiries have been or will be made by or on behalf of the Issuer or the Trustee in respect of any Series Secured Assets. Unless otherwise provided in the relevant Series Documents (as defined in Condition 4(a)), no representations or warranties, express or implied, have been or will be given by the Issuer, the Arranger, any Dealer, the Trustee or any other person on their behalf in respect of any Series Secured Assets.

Series Secured Assets

Noteholders may be exposed to the market price of the relevant Series Secured Assets on which the relevant Notes are secured. The Issuer may have to fund its payments in respect of a Series of Notes by the sale of the relevant Series Secured Assets at a market value and the nominal amount of the Series Secured Assets will be reduced by the principal amount of the Series Secured Assets sold. The market price of the Series Secured Assets will generally fluctuate with, among other things, the liquidity and volatility of the financial markets, general economic conditions, changes in prevailing interest rates, domestic and international political events, developments or trends in a particular industry and the financial condition of the issuer or obligor of the Series Secured Assets. The Dealers may have acquired, or during the terms of the relevant Series of Notes may acquire, confidential information with respect to any relevant Series Secured Assets and, if so, they shall not be under any duty to disclose such confidential information to any Noteholder of the relevant Series.

Default and Concentration Risk

The risk that payments on any Series of Notes could be adversely affected by defaults on the Series Secured Assets for such Series of Notes is likely to be increased to the extent that the relevant Series Secured Assets are concentrated in any one industry, region or country as a result of the increased potential for correlated defaults in respect of a single industry, region or country as a result of downturns relating generally to such industry,

region or country. To the extent that a default occurs with respect to any security comprised in the Series Secured Assets and the Issuer sells or otherwise disposes of such security, it is not likely that the proceeds of such sale or disposition will be equal to the full amount of principal and interest thereon. Should increases in default rates occur with respect to the types of collateral comprised in any Series Secured Assets, the actual default rates of such collateral may exceed any hypothetical default rates assumed by investors in determining whether to purchase Notes of the relevant Series.

Custody Arrangements

In circumstances where a charge under Irish law is expressed to be taken over Series Secured Assets and the relevant Series Secured Assets are held by or through the Custodian through a clearing system or where the Series Secured Assets are held outside Ireland, any security over such Series Secured Assets may take the form of an assignment by way of security of the Issuer's rights against the Custodian under the Agency Agreement to the extent that such rights relate to the relevant Series Secured Assets, rather than a charge over the relevant Series Secured Assets themselves.

Where Series Secured Assets are held by a sub-custodian on behalf of the Custodian, such Series Secured Assets will be held pursuant to separate agreements which may vary in relation to any particular Custodian and/or sub-custodian and which may not be governed by Irish law and security interests (if any) in respect of such Series Secured Assets may be created pursuant to separate agreements which may not be governed by Irish law. The Custodian will not necessarily be responsible for the acts, omissions, insolvency or dissolution of a sub-custodian. However, where no security is taken over these separate arrangements or over the relevant Series Secured Assets themselves, the insolvency or dissolution of the Custodian or the sub-custodian may affect the ability of the Issuer to meet its obligations under the Notes.

Risks Relating to the Counterparties

Reliance on Creditworthiness of Other Parties

If a Swap Agreement (as defined under "*Terms and Conditions of the Notes*") is entered into by the Issuer in connection with the Notes of any Series, the ability of the Issuer to meet its obligations under such Notes may depend on the receipt by it of payments under that Swap Agreement. Consequently, in such circumstances, the Issuer is exposed to the ability of the relevant Swap Counterparty (as defined under "*Terms and Conditions of the Notes*") (if any) to perform its obligations in respect of the relevant Swap Agreement.

The receipt by the Issuer of payments under a Swap Agreement may also be dependent on the timely payment by the Issuer of its obligations under that Swap Agreement. The ability of the Issuer to make timely payment of its obligations under the relevant Swap Agreement may depend on receipt by it of the scheduled payments under the relevant Series Collateral. Consequently, the Issuer may also be exposed to the ability of the issuer of the relevant Series Collateral to perform its payment obligations.

If acquired, Series Collateral (as defined in Condition 4(a)) will be held in an account of, and in the name of, the Custodian. Where Collateral consists of assets other than securities, it may be held in the name of or under the control of the Custodian or in such other manner as is approved by the Trustee. The Custodian may be responsible under the Agency Agreement for receiving payments on Series Collateral and remitting them as may be required in the context of the relevant Notes.

Trustee Conflicts of Interest

In connection with the exercise of its functions, the Trustee shall have regard to the interests of the Noteholders of a Series as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders of the relevant Series and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

In acting as Trustee under the Trust Deed, the Trustee shall not, in respect of Notes of any Series, assume any duty or responsibility to any Swap Counterparty (other than to pay to any Swap Counterparty any moneys received and payable to it and to act in accordance with the provisions of Condition 4) and shall have regard solely to the interests of the Noteholders of the relevant Series and shall not be obliged to act on any directions of the Swap Counterparty if this would in the Trustee's opinion be contrary to the interests of the Noteholders or Couponholders of the relevant Series.

Business Relationships and Capacity of KBC Bank NV

The Issuer, KBC Bank NV and any of its affiliates may have existing or future business relationships with any Swap Counterparty or obligor of any Series Collateral (including, but not limited to, lending, depository, risk management, advisory and banking relationships), and will pursue actions and take steps that they deem or it deems necessary or appropriate to protect its or their interests arising therefrom without regard to the consequences for a Noteholder of any Series. In addition, the Issuer, KBC Bank NV and any of its affiliates may make a market or hold positions in respect of any Series Collateral relating to any particular transaction. From time to time, KBC Bank NV and its affiliates may own significant amounts of Notes issued under the Programme.

KBC Bank NV and its affiliates may act in a number of capacities in respect of a Series of Notes issued under the Programme including, without limitation, Dealer, Calculation Agent and Swap Counterparty. KBC Bank NV and its affiliates acting in such capacities in connection with any Series of Notes shall have only the duties and responsibilities expressly agreed to by such entities in the relevant capacity and shall not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to hold a standard of care other than as expressly provided with respect to each such capacity. KBC Bank NV and its affiliates in their various capacities in connection with the Notes of any Series may enter into business dealings, from which they may derive revenues and profits in addition to any fees, without any duty to account therefor.

Reliance on the Portfolio Manager

KBC Asset Management NV has been appointed by the Issuer, pursuant to a portfolio management agreement entered into on 28 March 2008 as amended and restated on 29 June 2009 (the "**Portfolio Management Agreement**") between the Issuer and KBC Asset Management NV (in such capacity, the "**Portfolio Manager**"), to manage and service the Series Secured Assets with respect to each Series on behalf of the Issuer, including executing the acquisition and disposal of securities comprised therein, subject to compliance with the applicable provisions of the relevant Trust Deed. In undertaking this role, the Portfolio Manager may review such available public information relating to the obligors of the relevant securities as it considers appropriate in its absolute discretion. Such review may not include due diligence of the kind common in relation to a primary securities offering.

The performance of any investment in any Series of Notes in respect of which the Portfolio Manager is responsible for servicing and managing the relevant Series Secured

Assets will be dependent on, *inter alia*, the ability of the Portfolio Manager to manage and service the relevant Series Secured Assets and the performance by the Portfolio Manager of its obligations under the Portfolio Management Agreement.

Although the Portfolio Manager will be required, pursuant to the terms of the Portfolio Management Agreement, to maintain such equipment, materials and expertise, and employ such professional and other personnel, as shall be necessary to perform the services thereunder, the Portfolio Manager will not be required to devote all of its time to such affairs and may continue to advise other investment funds and accounts or provide other management and advisory services to other funds or accounts in the future.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks:

The Secondary Market Generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions, whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. The Issuer cannot predict if and when these circumstances will change and, if and when they do, whether conditions of general market liquidity for the Notes and instruments similar to the Notes will return in the future.

Exchange Rate Risks and Exchange Controls

The Issuer will pay principal and, where applicable, interest on Notes issued under the Programme in the currency for such Notes. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the specified currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the specified currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the specified currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest Rate Risks

Investment in Notes issued under the Programme may involve the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit Ratings may not Reflect all Risks

One or more independent credit rating agencies may assign credit ratings to a Series of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes of the relevant Series. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

THE ISSUER

General

Arcade Finance p.l.c. was incorporated as a special purpose vehicle in Ireland (with registered number 435310) on 22 February 2007 as a public company limited by shares under the Companies Acts 1963 to 2006. The authorised share capital of the Issuer is EUR40,000 divided into 40,000 ordinary shares of EUR1 each, all of which have been issued at par, are fully paid and are held, directly or through its nominees, by BNY Corporate Trustee Services Limited (in such capacity, the "**Share Trustee**") under the terms of a trust established under Irish law by a declaration of trust dated on or about 28 March 2007 and made by the Share Trustee for the benefit of such charities as the Share Trustee may determine from time to time at its discretion. The Share Trustee has no beneficial interest in and derives no benefit other than its fees for acting as trustee from holding such shares. The registered office of the Issuer is at 4th Floor, Hanover Building, Windmill Lane, Dublin 2, Ireland (telephone number +353 1 542 7920). The Issuer has no subsidiaries or subsidiary undertakings.

Directors and Secretary

The Directors of the Issuer are:

Name	Business Address	Principal Activities
John Fitzpatrick	10 Ann Devlin Avenue Rathfarnham Dublin 14 Ireland	Company Director
Michael Boyce	19 Glen Avenue The Park, Cabinteely Dublin 18 Ireland	Company Director
Ted Marah	Sandwith Street Dublin 2 Ireland	Chief Executive, KBC Bank Ireland plc
Emmanuel Stas	Joshua Dawson House Dawson Street Dublin 2 Ireland	Head of Structured Products, Eperon Asset Management Limited (an indirect subsidiary of KBC Bank NV)

The company secretary of the Issuer is BNY Financial Services p.l.c., whose principal address is 4th Floor, Hanover Building, Windmill Lane, Dublin 2, Ireland. KBC Bank Ireland p.l.c., whose principal address is Sandwith Street, Dublin 2, Ireland, provides certain accounting and related services to the Issuer.

Business

The principal objects of the Issuer are set out in clause 3 of its Memorandum of Association and are, *inter alia*, to issue, purchase, acquire, deal, trade, hold, manage or otherwise enter into an arrangement which constitutes any financial asset including, without limitation, shares, bonds, and other securities, all kinds of futures, options, swaps, derivatives and similar instruments, invoices and to raise, borrow and secure the

payment of money by the creation and issue of notes, bonds, debentures, commercial paper, or other securities whether or not secured upon all or any of the Issuer's undertaking, assets, property and revenues.

The only activities in which the Issuer has engaged are those incidental to its incorporation and registration as a public limited company under the Companies Acts 1963 to 2006, the establishment of the Programme, the issue of Series of Notes under the Programme, the other matters referred to or contemplated in this Base Prospectus and the authorisation, execution, delivery and performance of the other documents referred to in this Base Prospectus to which the Issuer is a party and matters which are incidental or ancillary to the foregoing.

The Issuer has entered into certain restrictive covenants as set out in the Conditions and the Master Trust Deed.

Issuer's power to appoint a new trustee and the resignation/removal of the Trustee

Pursuant to the provisions of the Trust Deed, the Issuer has the power to appoint a new trustee where the Trustee has resigned or has been removed as set out below.

The Trustee may retire at any time upon giving not less than 60 days' prior written notice to the Issuer without giving any reason and without being responsible for any costs occasioned by such retirement and the Noteholders shall have power, exercisable by extraordinary resolution, to remove any Trustee provided that the retirement or removal of any sole trustee or sole trust corporation shall not become effective until a trust corporation is appointed as successor Trustee. The Issuer undertakes that, if a sole trust corporation gives notice of retirement or an extraordinary resolution of Noteholders is passed for its removal, the Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as Trustee. If the Issuer fails to procure the appointment of a new trustee within the period of 60 days following notification of resignation or removal, the Trustee may appoint a successor trustee.

The only assets of the Issuer available to meet the claims of the holders of the Notes of a Series will be the assets which comprise the security for the Notes of such Series, as set out in the relevant Supplemental Trust Deed and/or Series Pledge Agreement.

The Notes are obligations of the Issuer alone and not of the Portfolio Manager, any Agent, the Trustee, or the Custodian.

There is no intention to accumulate surpluses in the Issuer.

Financial Statements

The Issuer has filed its audited financial statements for the year ended 30 April 2008 with the Irish Stock Exchange. The Issuer has also filed unaudited financial statements in respect of the six month period from its incorporation to 31 October 2008 with the Irish Stock Exchange (see the section headed "*Incorporation By Reference*" above).

Auditors

The statutory auditors of the Issuer are Deloitte & Touche. Deloitte & Touche is a member of the Institute of Chartered Accountants of Ireland.

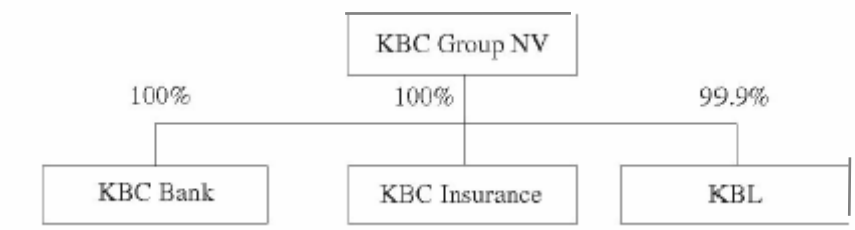
DESCRIPTION OF KBC BANK NV

1. Creation

KBC Bank NV (**KBC Bank**), a wholly-owned subsidiary of KBC Group NV (**KBC Group**, see below), was established in Belgium on 3rd June 1998 as a bank (with number BE-0462.920.226) and operates under the laws of Belgium. KBC Bank's registered office is at Havenlaan 2, B-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154.

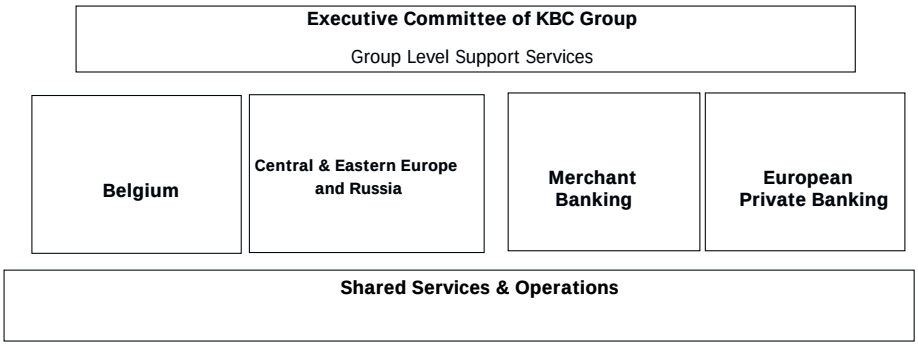
KBC Bank was initially formed through the merger of the banking operations of the Almanij-Kredietbank group and CERA Bank group (**CERA**). The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank. KBC Bank is registered as a credit institution with the Belgian Banking, Finance and Insurance Commission (*Commissie voor Bank-, Financie- en Assurantiewezen*) (the **CBFA**).

On 2 March 2005, KBC Bank and Insurance Holding Company NV, the parent company of KBC Bank, merged with its parent company Almanij. The merged entity has been renamed KBC Group NV. This restructuring was followed by a number of other simplifications to the group structure, and as a result, the current legal structure of KBC Group now consists of a holding company (KBC Group NV) with three main direct subsidiaries (KBC Bank, KBC Insurance and KBL European Private Bankers (KBL), see diagram).



KBC Group's shares are quoted on NYSE Euronext Brussels and on the Luxembourg Stock Exchange. As of 31 March 2009, there were 357,752,822 ordinary shares of KBC Group in circulation.

As of May 2006, a new management structure was rolled out throughout the KBC Group. This management structure is shown in the diagram below and essentially breaks down the group into five business units: Belgium, Central & Eastern Europe and Russia, Merchant Banking, European Private Banking and Shared Services & Operations (such as ICT and logistics and "product factories" such as payment systems, asset management, leasing and trade finance). Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the group CEO and group CFRO, constitute the executive committee of KBC Group. Each business unit has direct responsibility for achieving the objectives set.



The business units are defined further on. The comments further on will focus on the business units that are relevant for KBC Bank (Belgium, Central & Eastern Europe and Russia and Merchant Banking). The European Private Banking Business Unit includes only companies belonging to KBL and KBC Insurance (both sister companies of KBC Bank). The Shared Services & Operations Business Unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire KBC Group. Most of the expenses and income of the Shared Services & Operations Business Unit are passed on to the other business units and consequently reflected in their results. The main divisions belonging to this unit are Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation. Below, a brief overview is given of the activity geographical reach of every Business Unit:

	Belgium Business Unit	Central & Eastern Europe and Russia Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit
Main activities	Retail and private bancassurance	Retail and private bancassurance and corporate banking	Corporate banking and market activities	Private banking
Main geographical area	Belgium	Czech Republic, Slovakia, Hungary, Poland, Bulgaria Russia	Belgium and selected countries in Western Europe, North-America and Southeast-Asia	Belgium and selected countries in Western Europe

A list of all major companies that belong to the legal entity KBC Bank is provided further on.

2. Shareholders, network and ratings of KBC Bank

Shareholders (as at 31 December 2008)	(Number of Shares)
KBC Group	582,917,642
KBC Insurance	1
Total	582,917,643
Network (as at 31 December 2008)	
Bank branches in Belgium	879
Bank branches in Central and Eastern Europe and Russia	1,411
Long-term ratings (as of 18 May 2009)	
Fitch	A (stable outlook)
Moody's	Aa3 (negative outlook)
Standard and Poor's	A (stable outlook)

In view of the uncertain financial and economic climate, rating actions cannot be excluded in the near future.

3. Overview of main group companies belonging to KBC Bank

Company	*Registered office*	*Ownership percentage at KBC Bank Level*	*Activity*
Main fully consolidated subsidiaries			
Absolut Bank	Moscow – RU	95.00	Credit Institution
Antwerpse Diamantbank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
Centea NV	Antwerp – BE	99.56	Credit institution
CIBANK AD (ex-Economic and Investment	Sofia - BG	81.68	Credit Institution

Company	Registered office	Ownership percentage at KBC Bank Level	Activity
Bank AD)			
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	Credit Institution
Fin-Force NV	Brussels – BE	90.00	Processing financial transactions
Istrobanka a.s.	Bratislava - SK	100.00	Credit institution
KBC Asset Management NV	Brussels – BE	51.86	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	100.00	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	Issuance of trust preferred securities
KBC Bank Ireland Plc.(ex-IIB Bank Plc.)	Dublin - IE	100.00	Credit Institution
KBC Clearing NV	Amsterdam – NL	100.00	Clearing
KBC Commercial Finance	Brussels – BE	100.00	Factoring
KBC Credit Investments NV	Brussels – BE	100.00	Investments in credit-linked securities
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Shares and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing
KBC Peel Hunt Limited	London – GB	99.99	Stock exchange broker/corporate finance
KBC Private Equity NV	Brussels – BE	100.00	Private equity
KBC Real Estate NV	Zaventem – BE	100.00	Real estate
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	100.00	Credit institution

Company	Registered office	Ownership percentage at KBC Bank Level	Activity
Kredyt Bank SA	Warsaw – PL	80.00	Credit institution
Main proportionately consolidated subsidiaries			
-	-	-	-
Main companies accounted for using the equity method			
Nova Ljubljanska banka d.d. (NLB)	Ljubljana – SI	30.57	Credit institution

4. General description of activities, network and market position of KBC Bank

KBC Bank is a multi-channel bank that caters primarily to private persons and small and medium-sized companies. Its geographic focus is on Europe. In its two home markets (Belgium and Central and Eastern Europe), KBC Bank has a very important to even leading position. In the rest of the world, KBC Bank has a selective presence in certain countries or areas. KBC Bank's core business is retail and private bancassurance (including asset management) in its two home markets, though it is also active in services to corporations and market activities.

Across these markets, KBC Bank is active in a large number of markets and activities, ranging from the plain vanilla deposit, credit, asset management and (via its sister company, KBC Insurance) insurance businesses, to specialized activities (which are conducted out of specialized departments at head office or specialized subsidiaries) such as acquisition finance (the financing of buyouts, whether by management or shareholders, of entire companies or company assets, with the repayment being derived primarily from future cash flows), payments services, dealing room activities (money and debt market activities, via a number of dealing rooms in Western and Central Eastern Europe, the United States and South East Asia), brokerage and corporate finance, clearing, foreign trade finance, consumer finance, diamond finance, structured trade finance and project finance, international cash management, specialized market activities, such as trading in equity derivatives, convertible bonds, etc., leasing, private equity business and real estate services

KBC Asset Management (KBC AM) is a subsidiary of KBC Bank. Its services include individual asset management, institutional asset management (pension funds, social security funds, corporate liquidity management), as well as collective asset management, backed by research, product development, advisory management and marketing support. KBC AM has a subsidiary in Ireland, and also operates in other countries, assisting, for example, KBC Bank’s Central & Eastern European subsidiaries with the launch of own or KBC Bank investment funds. In Belgium, asset management products are sold through the KBC Bank, KBC Insurance, CBC Banque and Centea networks. In recent years, KBC Bank’s share of the Belgian market in investment funds has been over 30 per cent.

Through its banking and insurance subsidiaries, the KBC Group has also built up a significant position in asset management in Central and Eastern Europe (see above).

The adverse economic circumstances led the group to decide to re-examine the group's operations outside its home markets of Belgium and Central & Eastern Europe and evaluate whether or not they belong to its core activities, generate sufficient return or use up too much capital. This has already led to and will lead to further rationalisations in some of the activities mentioned before. Particularly, as regards the merchant banking operations, rationalisation examples include the winding up of the hedge fund manager, KBC Alternative Investment Management. Other specialised activities are being run down as well, including those conducted by KBC Financial Products on the derivatives market.

5. Belgium Business Unit

This business unit brings together all the group's retail- and private banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance and the activities of a number of Belgian subsidiaries.
The main KBC Bank entities belonging to this unit are CBC Banque, Centea, KBC Asset Management and the Belgian retail and private banking activities of KBC Bank.

Network

Bank network in Belgium (as at 31 December 2008)[1]

		Market share	*Customers (in millions)*	*Retail and Private Bank Branches*
Belgium	KBC Bank, CBC Banque, Centea	21%	3.5	852

1 Figures for market share relate to customer deposits and credits; figures for market shares and customers are own KBC Bank estimates.

At the end of 2008, KBC Bank had a network of 852 retail and private banking branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The (27) corporate branches in Belgium are part of the Merchant Banking Business Unit (see further). The Belgian retail market is also catered to by 696 independent agents working under the umbrella of the retail savings bank, Centea NV, a subsidiary of KBC Bank.

The 826 retail branches of KBC Bank and CBC Banque focus on providing private persons and small SME's in Belgium with a broad area of credit-, deposit- and asset management products and services, as well as insurance products (in co-operation with KBC Bank's sister company, KBC Insurance).
The 26 private banking branches of KBC Bank and CBC Banque offer high-net-worth customers a broad range of private banking services. Via these branches, KBC Bank provides both advisory and discretionary portfolio management

services, tailored to clients' individual needs and objectives. In addition, since the new KBC Group was formed, Belgian clients have been able to opt for the private banking service provided by Puilaetco Dewaay Private Bankers, a subsidiary of the KBL EPB group, a sister company of KBC Bank.

Bancassurance

KBC Group considers itself to be an integrated bancassurer and illustrated this clearly through the new management structure it introduced in 2006 (described earlier). Certain shared and support services are since then organised at group level, serving the entire group, and not just the bank or insurance businesses separately. It is KBC's explicit aim to continue to actively encourage the cross-selling of bank and insurance products within the group's various business units. The success of KBC's bancassurance model is in part due to the co-operation that exists between the bank branches of KBC Bank and the insurance agents of KBC Insurance, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of agents, the call centre and the head office departments at KBC Insurance.

Market share

As of 31 December 2008, KBC Bank (including its subsidiaries) had, based on its own estimates, a 20% share of the Belgian deposit market and a 23% share of the lending market. Over the past few years, KBC Bank has built up a strong position in investment funds, and leads the Belgian market with an estimated share of 37%

Electronic channels

The brick-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet. As of 31 December 2008, the branch network in Belgium was supplemented by 1,272 automated teller machines that allow customers to make fund transfers and receive account statements. KBC Bank also has a "KBC-Telecenter" which allows customers to effect the most current transactions, including securities trading, by phone. Customers who want to do their banking business directly by phone are offered "KBC-Phone" or "CBC-Phone" facilities. On the KBC-website www.kbc.be customers can find a variety of information and can carry out loan, investment and insurance-related simulations. PC and Internet banking can be done via "KBC-Online", "CBC Online" and "Centea Online". These alternative channels have proved popular. For example, in Belgium at the end of 2008, there were roughly 675,000 customers actively using the online systems, a 16% increase within one year.

E-banking indicators – Belgium	*31 December 2007*	*31 December 2008*
Number of KBC- and CBC-Matic ATMs	1,277	1,272
Number of cash withdrawals at KBC-Matic and CBC-Matic ATMs per month	3.9 million	4.0 million

Active subscribers to KBC's Internet and PC banking facilities	580,000	675,000

Main events in 2008

Reference is made to KBC Bank's annual report 2008 (available on www.kbc.com/investor relations/financial information KBC Bank).

6. Central & Eastern Europe and Russia Business Unit

Central & Eastern Europe and Russia (CEER): This Business Unit comprises all group banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe and Russia.

The main KBC Bank entities belonging to this unit are Absolut Bank (Russia), CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), Istrobanka (Slovakia), K&H Bank (Hungary), Kredyt Bank (Poland) and Nova Ljubljanska banka (Slovenia, minority interest).

Network

Bank network in Central and Eastern Europe and Russia (as at 31 December 2008)[1]

		Market share	*Customers (in millions)*	*Branches*
Czech Republic	ČSOB	22%	3.0	309
Slovakia	ČSOB, Istrobanka	10%	0.4	167
Hungary	K&H Bank	9%	0.9	256
Poland	Kredyt Bank	4%	1.0	401
Bulgaria	CIBANK	3%	0.3	139
Serbia[2]	KBC Banka[2]	0.7%	0.1	65
Russia	Absolut Bank	0.6%	0.2	74

1 Figures for market share relate to customer deposits and credits; figures for market shares and customers are own KBC Bank estimates. Excluding the minority stake in NLB in Slovenia, which is seen as a pure financial participation.

2 KBC Banka is a subsidiary of KBC Insurance, a sister company of KBC Bank.

Over the past few years, KBC Bank has built up an extensive network in a number of countries in Central and Eastern Europe and Russia. As of 31 December 2008, this network consisted of 1,411 branches operated by its ČSOB subsidiary in the Czech Republic, ČSOB and Istrobanka in Slovakia, K&H Bank in

Hungary, Kredyt Bank in Poland, CIBANK in Bulgaria, KBC Banka in Serbia (owned by KBC Bank's sister company, KBC Insurance) and Absolut Bank in Russia. The acquisitions effected in 2007 and 2008 (*inter alia* in Bulgaria and Russia) are described below.

Through this network, KBC Bank caters to circa 5.9 million bank customers in the region. This customer base, along with the group's 4 million insurance customers, make KBC Group one of the largest financial groups in the Central & Eastern European region.

Bancassurance

KBC's bancassurance concept (see under Belgium Business Unit) has over the past few years been exported to KBC's Central and Eastern European entities. In order to be able to do so, KBC Group has built up a second "home" market in Central and Eastern Europe in insurance too (via KBC Insurance). The group now has an insurance business in nearly every Central and Eastern European country in which it also has a major banking presence. In the Czech Republic, the KBC Group's insurer is ČSOB Pojist'ovňa; in Slovakia, ČSOB Poist'ovňa; in Poland, WARTA; in Hungary, K&H Insurance and in Bulgaria DZI Insurance.

Market share

As of 31 December 2008, the estimated market share (the average of the share of the lending market and the deposit market) came to 22% in the Czech Republic, 10% in Slovakia, 9% in Hungary, 4% in Poland, 3% in Bulgaria and below 1% in both Serbia and Russia. Given the increasing sophistication of these markets, there has been a shift to some extent from traditional deposits to off-balance-sheet products, such as investment funds. KBC Bank also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 34% in the Czech Republic, 13% in Slovakia, 22% in Hungary and 5% in Poland).

Electronic channels

Just as in Belgium, the brick-and-mortar networks in Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephones and the Internet. In total, KBC Bank has, via its subsidiaries in the region, some 2,000 ATMs and some 900,000 active users of its various internet and PC-banking facilities.

Expansion

In general, it will remain KBC Bank's policy to continue to look for expansion possibilities that fit into its strategy, especially in Central and Eastern Europe. This can be done either by add-on acquisitions and branch network increases in the countries KBC is already present in, or by acquisitions in other countries of the region. In view of the financial crisis and adverse economic circumstances, however, no significant acquisitions are planned in the near future. As such, the group will, in the immediate future, focus on further consolidating the positions in the Central and Eastern European countries, based on selective organic growth and a modest increase in the loan portfolio. As far as Russia is concerned, the group will maintain a conservative approach whilst the uncertain macroeconomic situation persists.

Main events in 2008

Reference is made to KBC Bank's annual report 2008 (available on www.kbc.com/investor relations/financial information KBC Bank).

7. Merchant Banking Business Unit

This Business Unit comprises the services provided to larger SME and corporate customers, as well as all market activities, apart from the merchant banking activities performed by the group companies in Central and Eastern Europe and Russia (recorded under the CEER Business Unit). Specifically, this business unit encompasses the merchant banking activities of KBC Bank in Belgium, its branches abroad and the specialised merchant banking subsidiaries of KBC Bank, as well as the activities of the reinsurance companies and a number of financing companies.

The main KBC Bank entities belonging to this business unit are Antwerp Diamond Bank (various countries), KBC Commercial Finance (Belgium), the merchant banking activities of KBC Bank, KBC Bank Deutschland (Germany), KBC Bank Ireland (Ireland), KBC Clearing (Netherlands), KBC Credit Investments (Belgium), KBC Finance Ireland (Ireland), KBC Financial Products (various countries), KBC Lease (various countries), KBC Internationale Financieringsmaatschappij (Netherlands), KBC Private Equity (Belgium) and KBC Securities (including KBC Peel Hunt; various countries).

Network

The 27 corporate branches of KBC Bank and CBC Banque (succurales) in Belgium provide products and services to corporates in Belgium (mainly large SMEs).

Outside Belgium and Central & Eastern Europe and Russia, KBC Bank concentrates on merchant banking through a network of KBC Bank representative offices, branches and subsidiaries. The (33) representative offices and branches are located mainly in Western Europe, Southeast Asia and the US. These establishments concentrate mainly on mid-cap customers and customers that already do business with KBC Bank Group's Belgian or Central & Eastern European network. Additionally, these establishments operate in certain niches, which may include government finance, health care, real estate, trade finance or acquisitions finance.

Corporate banking activities are also performed by a number of subsidiaries. The main subsidiaries are KBC Bank Ireland (formerly called IIB Bank; an Irish bank that provides financial services to SMEs and corporate customers, and also has a sizeable share of the home loan market), and KBC Bank Deutschland (which operates through a limited branch network in the banking market for local mid-sized companies, banks and network customers doing business in Germany). KBC Bank also provides specialised corporate services via subsidiaries that specialise in the area of structured finance, real estate services, leasing and factoring, finance for the diamond trade etcetera.

Besides corporate banking in Belgium and a number of selected countries in the world, KBC Bank is also involved in a number of market activities, including dealing room activities (money and debt market activities, via a number of dealing rooms in Western and Central Eastern Europe, the United States and

South East Asia), brokerage and corporate finance (mainly via KBC Securities and KBC Peel Hunt), clearing (via KBC Clearing), convertible bonds and other specialised market activities (via KBC Financial Products), private equity business (via KBC Private Equity) etc.

Following the rationalisation of the past few years, only minor changes were made to the merchant banking network in 2007 and 2008. In view of the adverse economic circumstances, it was decided end 2008 to re-examine the group's operations outside its home markets of Belgium and Central Europe and evaluate whether or not they belong to the core activities, generate sufficient return or use up too much capital. This group-wide exercise will lead to rationalisations, for instance in the field of the structured derivatives-based market activities. Additionally, all merchant banking activities related to equities trading, IPOs, mergers and acquisitions, convertible bonds, etc., will now be grouped under KBC Securities. That will bring the operations of the subsidiaries, KBC Financial Products, KBC Peel Hunt and KBC Securities into a single structure. The other remaining activities of KBC Financial Products will be further reduced.

Market share

As of 31 December 2008, KBC Bank had (based on its own estimates) a 23% share of the Belgian credit market.

Electronic channels

KBC Bank offers various electronic services to its business customers, including KBC-Online for Business, KBC-Flexims (an internet channel that customers can use to apply to KBC Bank for documentary credit, documentary collections and international bank guarantees or to modify such facilities), Go & Deal (an internet channel that customers can use to trade FX and money market cash products) and W1SE, which enables companies to remotely initiate and approve local and cross-border payments and direct debits.

Main events in 2008

Reference is made to KBC Bank's annual report 2008 (available on www.kbc.com/investor relations/financial information KBC Bank).

8. List of main acquisitions/divestments in 2007 and 2008

- March 2007: acquisition of a 99.3% stake in the Romanian leasing company Romstal Leasing;
- April 2007: acquisition of a 100% stake of the Romanian broker Swiss Capital; acquisition of a 100% stake in the Hungarian online retailbroker Equitas;
- June 2007: take-over of the 50% stake of ING Belgium in International Factors (now called KBC Commercial Finance); acquisition of 100% of A Banka in Serbia by KBC Insurance;
- July 2007: acquisition of a 95% stake in the Russian Absolut Bank; acquisition of the Serbian equity broker Hipobroker; finalisation of the squeeze-out of the remaining shares of CSOB in the Czech Republic;

- August 2007: acquisition of a 51% stake in Baltic Investment Company, a corporate finance specialist in Latvia.
- September 2007: acquisition of a 60% stake in the Serbian corporate finance specialist Bastion;
- October 2007: acquisition of the Serbian equity broker Senzal;
- December 2007: acquisition of a 75% stake in Economic and Investment Bank in Bulgaria (now called CIBANK);
- July 2008: acquisition of the Slovak bank Istrobanka.

9. Competition

All of KBC Bank's operations face competition in the sectors they serve.

Depending on the activity, competitor companies can include other commercial banks, saving banks, loan institutions, consumer finance companies, investment banks, brokerage firms, insurance companies, specialised finance companies, asset managers, private bankers or investment companies.

In both Belgium and Central & Eastern Europe and Russia, KBC Bank has an extensive network of branches and/or agencies and the group believes most of its group companies have a strong name brand recognition in their respective markets.

In Belgium, KBC Bank is perceived as belonging to the top three financial institutions. For certain products or activities, KBC Bank estimates it has a leading position (e.g. investment funds). The main competitors in Belgium are Fortis, Dexia and ING, though for certain products, services or markets, other financial institutions may also be important competitors.

In the Central & Eastern Europe region, KBC Bank is one of the leading financial groups, occupying significant to even leading positions in banking. In this respect, KBC Bank competes, in each of these countries, against local financials institutions, as well as subsidiaries of other large foreign financial groups (such as Erste Bank, Unicredit and others).

In the rest of Europe, KBC Group's presence mainly consists of a limited number of KBC Bank branches and subsidiaries, that cater primarily to corporate clients. Outside Europe, KBC Bank's presence is limited to a number of branches and subsidiaries of KBC Bank. In these activities, KBC Bank faces competition both from local companies and international financial groups.

10. Risk management

Risk management in the KBC Group is effected group-wide. As a consequence, the risk management for KBC Bank is embedded in the group risk management and cannot be seen separately from it.

A description of risk management in the KBC Group (which, over and above KBC Bank, also includes KBC Insurance and KBL) is available in the 2008 Annual

Report of KBC Group. Below, only a selection of this information is provided – for a full picture, please refer to the annual report of KBC Group and of KBC Bank.

Risk governance

The main risks incurred by a bank such as KBC Bank are credit risks, Asset/Liability Management risks, liquidity risks, market risks and operational risks.

- Credit risk is the potential negative deviation from the expected value of a financial instrument consequent on non-payment or non-performance by a borrower (of a loan), an issuer (of a debt instrument), a guarantor or re-insurer, or a counterparty (to a professional transaction), due to that party's insolvency or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country.
- Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk, inflation risk and credit risk (limited to the investment portfolios).
- Liquidity risk is the risk that an organisation may not be able to fund increases in assets or meet obligations as they fall due, unless at unreasonable cost.
- Market risk is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in market prices, i.e. interest rates, exchange rates and equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book are all included in ALM exposure.
- Operational risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

Credit risk management

Although quite a few transactions involve credit risk, the main source of credit risk is the loan portfolio of KBC Bank. A snapshot of this portfolio is shown in the table below.

The loan portfolio includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export/import-related commercial credits), standby credit and credit derivatives (granted by KBC Bank and all its majority-held subsidiaries) to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate or bank-issued, hence government bonds (which are used more for treasury and liquidity management purposes) and trading book exposure are not included.

Loan portfolio, KBC Bank	*31 December 2006*	*31 December 2007*	*31 December 2008*	*31 March 2009*
Total loan portfolio (in billions of EUR)				
Amount granted	182	204	213	210
Amount outstanding	135	160	174	172
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)				
Belgium (retail)	30%	29%	29%	30%
Central and Eastern Europe and Russia	19%	22%	24%	23%
Merchant banking (excl. Central and Eastern Europe and Russia)	52%	50%	47%	47%
Total	100%	100%	100%	100%
Loan portfolio breakdown by sector (selected sectors as a % of the portfolio of credit granted)				
Real estate	6%	7%	7%	7%
Electricity	3%	2%	2%	2%
Automobile industry	3%	3%	2%	2%
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)				
Specific impairment	1,933	1,943	2,559	2,744
Portfolio-based impairment	222	185	262	259
Credit cost ratio (net changes in specific and portfolio-based impairment for credit risks/average outstanding loan portfolio)	0.14%	0.11%	0.62%	0.71%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)				
Amount outstanding	2,157	2,329	3,044	4,078
Specific impairment for non-performing loans	1,488	1,456	1,781	2,121
Non-performing ratio (amount outstanding of NP loans/total outstanding loan portfolio)	1.6%	1.5%	1.7%	2.4%
Cover ratio of NP loans by specific impairment for NP loans	69%	63%	59%	52%

Loan portfolio, KBC Bank	*31 December 2006*	*31 December 2007*	*31 December 2008*	*31 March 2009*
Cover ratio of NP loans by specific and portfolio-based impairment for performing and NP loans	100%	91%	93%	74%

The table provides information on impaired and non-performing loans. On KBC Bank's internal Probability of Default (PD) scale, impaired loans coincide with the worst loan classes, i.e. loans to clients with a PD of 10, 11 and 12. In respect of these impaired loans, specific loan impairments are recorded under IFRS. In addition, a portfolio-based impairment is recognised (based on a formula). The related credit cost ratio is also given in the table. Non-performing loans are impaired loans for which principal repayments or interest payments are more than ninety days overdue. This coincides with loans to clients with PD classes 11 and 12. The table provides specific information on non-performing loans, including the 'non-performing ratio' and the 'cover ratio'.

Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. A cautious approach has been adopted towards this particular type of lending for some considerable time, as reflected *inter alia* in an additional buffer (in terms of the loan-to-value ratio, net disposable income thresholds and shorter maturities) and close monitoring by means of stress tests. More information on the credit portfolio, including the situation in Ireland, is provided in the General Investor Presentation Spring 2009', which is available on www.kbc.com

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk, such as short-term commercial exposure (trade-related commitments, where the term does not surpass two years and the counterparty is a bank, such as confirmed or guaranteed documentary credits and documented pre-export financing and post-import financing), the counterparty risk of inter-professional transactions (refers to placements and the pre-settlement risk of derivatives), trading book securities – issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government bonds in the investment portfolio. Information on these risks can be found in the annual report.

In relation to so-called structured credit products, more information is available in the 2008 Annual Report, the 2008 Risk Report, the Extended Quarterly Report 1Q 2009 and the presentation entitled 'Structured Credit 31-03-2009' all of which are available on www.kbc.com.

A summary follows next:

KBC acted as originator of structured credit transactions for investors. KBC bought credit risk, structured the deal and offloaded the risk to investors (through KBC Financial Products). In order to do so, for several Collateralised Debt

Obligation(CDO) transactions, KBC bought credit protection ('reinsurance'), mainly from MBIA (then AAA-rated monoline insurer).

Key figures of KBC Group –MBIA insurance coverage received, in EUR –31-03-2009

Total insured amount (notional amount of the super senior swap): 14.4 billion

Fair value of MBIA insurance coverage received (modelled replacement value): 5.2 billion

Credit value adjustment on counterparty risk MBIA (provision to cover possibility that MBIA might not be able to perform if needed): -3.1 billion (60%)

KBC itself also invested in structured credit: both in CDOs (largely originated by KBC itself) and in other Asset-Backed Securities (ABS). The main initial objective was to differentiate risk and enhance the yield for its insurance reserves and bank deposits it carried in surplus of its loans. As regards CDOs, over 95% of KBC's CDOs are 'synthetic', which means that the underlying pool is made up of derivatives i.e. Credit Default Swaps (CDSs).

Key figures of KBC group investment in structured credit products, in EUR –31-03-2009
Total nominal amount: 15.5 billion (CDOs 9.5 billion and ABS 6.1 billion)
Cumulative value mark downs: -5.3 billion on CDOs and -1.7 billion on ABS

On 13 May 2009, an 'asset relief' program was agreed with the Belgian Government as regards the above-mentioned risks related to MBIA and CDOs (see recent events).

Asset-liability management

The table below shows the extent to which the value of the portfolio would change (basis-point-value or BPV) if interest rates were to fall by ten basis points across the entire curve (positive figures indicate an increase in the value of the portfolio).

BPV of the ALM-book, KBC Bank (in millions of EUR)

Average, 1Q 2006	75
Average, 2Q 2006	87
Average, 3Q 2006	89
Average, 4Q 2006	74
31 December 2006	67
Maximum in 2006	94
Minimum in 2006	65
Average, 1Q 2007	70

Average, 2Q 2007	54
Average, 3Q 2007	41
Average, 4Q 2007	41
31 December 2007	43
Maximum in 2007	74
Minimum in 2007	37
Average, 1Q 2008	54
Average, 2Q 2008	70
Average, 3Q 2008	72
Average, 4Q 2008	72
31 December 2008	79
Maximum in 2008	79
Minimum in 2008	43
Average, 1Q 2009	84
31 March 2009	86
Maximum in 1Q 2009	91
Minimum in 1Q 2009	79

Market risk management

As already stated before, KBC Bank has a number of money and debt capital market dealing rooms in Western and Central and Eastern Europe, the United States and the Southeast Asia, though the dealing room in Brussels accounts for the majority of the limits and risks. The dealing rooms abroad focus primarily on providing customer service in money and debt capital market products, funding local bank activities and engaging in limited trading for own account in local niches.

KBC Bank, through its specialised subsidiaries KBC Securities, KBC Peel Hunt and KBC Financial Products, engages in sales and trading in equities and their derivatives, such as options and convertible bonds. Through KBC Financial Products, the bank is also involved in other specialized market activities (such as

fund derivatives, credit derivatives and insurance derivatives). However, in view of the adverse economic circumstances, it was decided end 2008 to re-examine the group's operations outside its home markets of Belgium and Central Europe and evaluate whether or not they belong to its core activities, generate sufficient return or use up too much capital. This group-wide exercise has led and will lead to rationalisations, for instance as regards to the activities effected by KBC Financial Products (f.i. in the derivatives-based market activities).

The table below shows the Value-at-Risk (VAR; 99% confidence interval, 1-day holding period, historical simumation) for KBC Bank's dealing rooms on the money and capital markets, based on historical simulation and for KBC Financial Products.

Market risk VAR (1-day holding period, in millions of EUR)	*KBC Bank*	*KBC Financial Products*
Average, 1Q 2006	4	9
Average, 1Q 2006	4	9
Average, 2Q 2006	4	12
Average, 3Q 2006	3	8
Average, 4Q 2006	3	7
31 December 2006	3	5
Maximum in 2006	6	20
Minimum in 2006	2	4
Average, 1Q 2007	4	10
Average, 2Q 2007	4	10
Average, 3Q 2007	4	13
Average, 4Q 2007	5	15
31 December 2007	5	13
Maximum in 2007	7	19
Minimum in 2007	3	4
Average, 1Q 2008	5	15
Average, 2Q 2008	7	11
Average, 3Q 2008	6	15
Average, 4Q 2008	12	24
31 December 2008	9	15
Maximum in 2008	15	30
Minimum in 2008	5	9
Average, 1Q 2009	10	14

31 March 2009	6	13
Maximum in 1Q 2009	13	21
Minimum in 1Q 2009	6	10

11. Staff

In 2008, KBC Bank had, on a consolidated basis, about 44,000 employees (in full-time equivalents (FTE)), the majority of which were located in Belgium (especially KBC Bank NV) and Central and Eastern Europe and Russia (especially in the Czech and Slovak republics, Poland, Hungary, Bulgaria, and Russia).

In addition to talks at works council meetings and at meetings with union representatives and with other consultative bodies, KBC Bank also works closely in other areas with employee associations. There are various collective labour agreements in force.

12. Management KBC Bank

The Board of Directors of KBC Bank has the powers to perform everything that is necessary or useful to achieve the object of the company, with exception of those powers of which, pursuant to the law and the articles of association, solely another body is empowered to perform.

Pursuant to article 26 of the Law of March 22, 1993 on the legal status and supervision of credit institutions, and article 524bis of the Companies Code, the Board of Directors of KBC Bank has transferred the day-to-day-management of the company to the Executive Committee of KBC Bank. However, this transfer of powers relates neither to the definition of '*general policy*,'[1] nor to the powers which are reserved to the Board of Directors by the provisions of the Executive Committee. The Board of Directors is responsible for supervision of the Executive Committee.

[1] General policy' means: the determination of strategic guidelines, the approval of projects and budgets, important structural reforms, the definition of the relationship of the company with its shareholders. In interpreting this concept, the type of activities and the size of the company need to be taken into account as well.

Members of the Board of Directors of KBC Bank are as follows:

Name	*Business Address*	*Position in KBC Bank*	*Principal offices outside KBC Bank*
Andre Bergen* +	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	President of the Executive Committee of KBC Group and Executive Director of KBC Insurance
Etienne Verwilghen * +	KBL 43 Boulevard Royal L 2955 LUXEMBOURG	Executive Director	President of the Executive Committee of KBL European Private Bankers S.A. Executive Director of KBC Group and Executive Director of KBC Insurance
Chris Defrancq* +	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	President of the Executive Committee of KBC Insurance and Executive Director of KBC Group
Danny De Raymaeker*	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	Member of the Executive Committee of KBC Group and Executive Director of KBC Insurance
Jan Vanhevel*	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	Member of the Executive Committee of KBC Group and Executive Director of KBC Insurance
Guido Segers*	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	Member of the Executive Committee of KBC Group and Executive Director of KBC Insurance

Name	*Business Address*	*Position in KBC Bank*	*Principal offices outside KBC Bank*
Jan Huyghebaert	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Chairman of the Board of Directors	Chairman of the Board of Directors of KBC Group Chairman of the Board of Directors of KBC Insurance Chairman of the Board of Directors of KBL European Private Bankers S.A. Member of the Executive Committee of the Federation of Enterprises in Belgium (FEB)
Luc Philips*	KBC Bank Havenlaan 2 BE 1080 BRUSSELS	Executive Director	Director of KBC Group Director of KBC Insurance Director of KBL European Private Bankers S.A.
Sonja De Becker	Boerenbond Diestsevest 40 BE 3000 LEUVEN	Non-Executive Director	Secretary General of Belgische Boerenbond Director of MRBB
Franky Depickere	Cera CVBA Philipssite 5/B10 BE 3001 LEUVEN	Non-Executive Director	Director of KBC Group Executive Director of Cera Beheersmaatschappij NV and KBC Ancora Beheersmaatschappij NV President of the Executive Committee of Cera CVBA Director of KBL European Private Bankers S.A.

Name	*Business Address*	*Position in KBC Bank*	*Principal offices outside KBC Bank*
Walter Nonneman	UA (Stadscampus) Dpt. Economie Prinsstraat 13 2000 Antwerpen	Non-Executive Director	Independent Director of Cera Beheersmaatschappij NV
Pierre Konings	Prins Van Oranjelaan 178 1180 Brussel	Non-Executive Director	Chairman of the Board of Directors of E-Capital II Chairman of the Board of Directors of Capricorn Cleantech Fund Investments Director of BD-World SA
Marita Orlent-Heyvaert	Richard Orlenstraat 5 BE 2070 ZWIJNDRECHT	Non-Executive Director	Director of Robor NV
Paul Peeters	Pfizer Manufacturing NV Rijksweg 12 BE 2870 PUURS	Non-Executive Director	Director of Pharmacia NV Director of Cera Beheersmaatschappij NV Director of Almancora Beheersmaatschappij NV
Gustaaf Sap	Advocatenkantoor SAP Justitiestraat 24 BE 2018 ANTWERP	Non-Executive Director	Chairman of the Board of Directors of Cecan NV Director of Cecan Invest NV
Patrick Vanden Avenne	Vanden Avenne Oostrozebeeksestraat 160 BE 8710 OOIGEM	Non-Executive Director	Executive Director of Vanden Avenne-Ooigem NV
Julien De Wilde	Jabekestraat 49 BE 9230 WETTEREN	Independent Director	Chairman of the Board of Directors of Agfa Gevaert Director of Bekaert NV

Name	*Business Address*	*Position in KBC Bank*	*Principal offices outside KBC Bank*
Germain Vantieghem	Cera CVBA Philipssite 5/B10 BE 3001 LEUVEN	Non-Executive Director	Director of KBC Group and KBC Insurance Director of Cera Beheersmaatschappij NV and KBC Ancora Beheersmaatschappij NV Member of the Executive Committee of Cera CVBA Director of VTB-VAB Group NV
Dirk Wauters	VRT Auguste Reyerslaan 52 BE 1043 BRUSSELS	Non-Executive Director	Executive Director of VRT, the Flemish public radio and TV broadcaster
Marc Wittemans	MRBB CVBA Diestsevest 40 BE 3000 LEUVEN	Non-Executive Director	Director of KBC Group Executive Director of MRBB CVBA

There are no potential conflicts of interest between the duties to KBC Bank of the Board of Directors and their private interests or other duties.

* These members of the Board of Directors of KBC Bank form the Executive Committee of KBC Bank. According to article 20 of the articles of association of KBC Bank, members of the Executive Committee, by reason of their appointment, acquire the capacity of executive director of KBC Bank. These people are also members of the Board of Directors of KBC Insurance, who form the Executive Committee of KBC Insurance. According to article 19 of the articles of association of KBC Insurance, members of the Executive Committee, by virtue of their appointment, acquire the capacity of executive director of KBC Insurance.

\+ These people are also members of the Board of Directors of KBC Group and of the Executive Committee of KBC Group. By virtue of their appointment as member of the Executive Committee, they acquire the capacity of executive director of KBC Group.

13. Recent Events

The most recent evolutions at KBC can be found on its website www.kbc.com, more specifically in the press releases and financial reports. The main recent items are:

Capital strengthening transactions concluded with the Belgian State (concluded December 2008) and Flemish Regional government (announced January 2009):
Rationale: though KBC's solvency position was well above the sector average and regulatory requirements, capital market sentiment has changed dramatically and has led to a unanimous call for higher capital requirements for financial institutions. In this context, it was felt prudent to strengthen the capital further. The transactions follow multiple initiatives taken across the world to make capital available to banking institutions in order to boost confidence in the financial system and to safeguard access to funding for private individuals and non-financial corporate entities. The structure of the transactions are designed to provide additional certainty to customers, counterparties and debt holders.

- Transaction with the Belgian State: KBC Group issued 3.5 billion euros of non-transferable, non-voting, core-capital securities to the Belgian State (Federale Participatie- en Investeringsmaatschappij) and used the proceeds of the transaction to increase the capital in the banking business by 2.25 billion euros and the capital in the insurance business by 1.25 billion euros. The transaction was settled on 19 December 2008. Summary of terms and conditions in the press release.

- Transaction with the Flemish regional government: KBC Group will issue 2.0 billion euros of non-transferable, non-voting core-capital securities to the Flemish regional government and will use the proceeds of the transaction to increase the capital in the banking business. A supplementary 1.5 billion euros standby facility was also agreed upon. Summary of terms and conditions in the press release. Closing of this transaction is still pending.

Release of the 1Q 2009 results of KBC Group (the parent company of KBC Bank):

- Net loss of 3.6 billion euros in 1Q 2009

- Strong net interest income performance thanks to easing pricing pressure, mainly in Belgium

- Favourable cost trend bringing underlying cost/income ratio, banking at 58% close to pre-crisis level

- Underlying loan impairment charge down 10% on previous quarter, corresponding with loss ratio of 0.70%

- Continued difficult investment climate, however, keeping fee and commission income low and triggering anticipated share portfolio impairment in insurance division

- Value adjustments on CDO-exposure in the amount of -3.8 billion euros (including increased coverage of monoline insurer default risk for 2.5 billion euros), state-issued guarantee structure for remaining CDO exposure (see details in quarterly report)

- Pro forma Tier-1 capital ratio, banking at 11.0% of which 8.3% core equity, including impact of capital enhancement measures announced

Guarantee scheme for structured credit – agreement with Belgian State dd. 14 May 2009

In 1Q 2009 KBC had to record additional impairment losses because MBIA, a US credit reinsurer ran into difficulty. MBIA used to have the highest AAA rating and insures 14 billion euros' worth of KBC risks. Having run into difficulty, the reinsurer moved valuable assets to a separate entity in February whereby its solvency was eroded. Together with a number of other banks, KBC initiated legal proceedings against MBIA on 13 May in order to defend its interests. Because of the difficulties at MBIA, KBC runs the risk that it will have to bear the cost of any insured losses itself, and has therefore set aside a additional provision of 2.5 billion euros for this purpose (total provision for MBIA now 3.1 billion euros). Furthermore, an additional amount had to written down on the CDO investments. KBC had already written the value of these investments down to zero, except the tranches with the highest quality ratings, which are known as the super senior tranches. Due to the deterioration of the global economic climate, an additional 1.3 billion euros had to be set aside for the super senior tranches for accounting purposes even though no actual losses had been made on account of repayment problems at the companies who had taken out the loans in the first place (total provisions for CDO notes now stand at 5.3 billion).

To avoid additional losses on the CDO portfolio and on MBIA in the future, a guarantee scheme has been agreed with the government. This guarantee covers both the risk related to MBIA and the risk relating to the super senior CDOs and amounts to 20 billion euros in total. The risks will be covered in three tranches. If losses occur, the first tranche of 3.2 billion euros will be born by KBC. To this end, KBC has already set aside the necessary provisioning to ensure that these losses cannot affect future results. If the losses exceed this amount, KBC has the option for the next tranche (amounting to 2 billion euros) of either bearing the loss itself or asking the State to assist by means of a capital increase. Lastly, any remaining risk will be covered by the State. If this last guarantee should be called in, the government will pay in cash. Both for the second and third tranches, KBC will have to cover an 'excess' of 10%. Besides a number of accounting adjustments, future additional losses will be limited. KBC Group will book a premium for this guarantee that is in line with market rates, i.e. 1.2 billion euros upfront and 30 million euros a quarter for six years. The 1.2 billion euros plus the first 30-million-euro payment will be booked in the second quarter of 2009. Lastly, KBC Group will use the 1.5 billion euros allocated by the Flemish Regional Government in January to further increase the capital of both KBC Bank and KBC Insurance. Taking all measures into account, KBC's capital ratio (known as the tier-1 ratio) will come to a solid 11%.

***Note**: this information is simplified and incomplete in a number of area. For more detailed information, please refer to the regulated press release on the results and other publications, all of which are available at www.kbc.com.*

PORTFOLIO MANAGEMENT, ADMINISTRATION AND CUSTODY ARRANGEMENTS

Portfolio Management

Unless provided otherwise in the Supplemental Trust Deed with respect to a Series, the Series Secured Assets in respect of each Series of Notes will be managed on behalf of the Issuer by KBC Asset Management NV acting as Portfolio Manager pursuant to a portfolio management agreement made on 28 March 2008 as amended and restated on 29 June 2009 between the Issuer, the Trustee and the Portfolio Manager (the "**Portfolio Management Agreement**"). In the event that the Portfolio Management Agreement is terminated, a replacement portfolio manager will be appointed.

The Portfolio Manager was incorporated in Belgium on 30 December 1999 and obtained a licence as "vennootschap voor vermogensbeheer" (asset management company) on 1 June 2000 by the "Commissie voor het Bank – en Financiewezen – Commission Bancaire et Financière" (The Belgian Banking and Finance Commission). This licence was amended on 9 June 2005 to "beheersvennootschap van instellingen voor collectieve belegging" (management company of collective investment schemes).

The principals of the Portfolio Manager are as follows:

- Antoon Termote, Chief Executive Officer, responsible for Finance, Organization and Human Resources Management, Risk Control, Compliance and KBC Asset Management SA;

- Edwin De Boeck, Managing Director, responsible for Institutional Clients, Group Assets, Management Fixed Income (Brussels), Economic Research and Strategy, Management Quant Research, Management Passive Equity Funds, Sustainability & Socially Responsible Investments, KBC Asset Management SA and KBC Asset Management Ltd;

- Luc Popelier, Managing Director, responsible for International Development (including joint ventures and non home markets), Product Development Home Markets, Legal Support, Management Funds of Funds and Central European Activities;

- Ignace Van Oortegem, Managing Director, responsible for Operations, Process & Application Management, End User Computing and Dealing Desk, KBC Asset Management SA and KBC Asset Management Ltd; and

- Werner Van Steen, Managing Director, Management Active Equity Funds, Management Hedge Funds (Dublin), Sales Support & Knowledge Management (Brussels), Sector & Corporate Research, Management Capital Protected & Structured Funds, KBC Asset Management SA and Eperon Asset Management Ltd.

Portfolio Administration

Unless provided otherwise in the relevant Supplemental Trust Deed with respect to a Series, the Series Secured Assets related to the relevant Series of Notes will be administered on behalf of the Issuer by KBC Asset Management NV (in such capacity, the "**Administration Agent**") pursuant to the Agency Agreement originally dated 28 March 2007 as amended and restated on 29 June 2009.

Pursuant to the Agency Agreement, the Administration Agent has agreed to monitor the Series Secured Assets with respect to each Series of Notes on behalf of the Issuer and to provide to the Issuer and the Portfolio Manager on a periodic basis certain information

regarding the Series Secured Assets with respect to each Series of Notes, cash on deposit in each Series Cash Account, the Principal Amount Outstanding of each Series of Notes, and payments which are scheduled to fall due by the Issuer with respect to each Series of Notes prior to the next reporting date.

The Administration Agent has also agreed to provide information to the Issuer and the Portfolio Manager on a periodic basis regarding the valuations of the Series Secured Assets with respect to each Series of Notes and the liabilities of the Issuer with respect to each Series of Notes (including liabilities represented by Notes issued by it).

The Administration Agent may resign by giving to the Issuer, the Trustee and the Principal Paying Agent not less than 60 days' written notice, and the Issuer may, with the prior written approval of the Trustee, terminate the appointment of the Administration Agent by giving to the Administration Agent, the Trustee and the Principal Paying Agent not less than 60 days' written notice. The appointment of the Administration Agent will terminate forthwith if the Administration Agent becomes insolvent or enters into insolvency proceedings. The Issuer has covenanted in favour of the Trustee that there will at all times be an Administration Agent.

Custody Arrangements

Unless provided otherwise in the relevant Supplemental Trust Deed, the Series Collateral relating to a Series will be held, or caused to be held, on behalf of the Issuer by KBC Bank NV, Brussels, acting in its capacity as custodian and/or by such other custodian as may be appointed by the Issuer with the written approval of the Trustee (the "**Custodian**") pursuant to the Agency Agreement and the Trust Deed. The Series Collateral will be held by the Custodian in a securities account in the name of the Issuer (the "**Series Custody Account**").

The Custodian will also open a cash account (each a "**Series Cash Account**") in the name of the Issuer into which will be paid all amounts of principal, interest and other cash distributions received in respect of the Series Charged Assets for each Series. Payments made by the Issuer in respect of a Series will be made from amounts standing to the credit of the relevant Series Cash Account.

HEDGING ARRANGEMENTS

In connection with each Series of Notes, the Issuer may enter into one or more over-the-counter derivative transactions with KBC Bank NV as counterparty or such other person as may be specified in the relevant Supplemental Trust Deed and the relevant Final Terms (each such counterparty, the "**Swap Counterparty**" with respect to the relevant Series of Notes). Where KBC Bank NV is the Swap Counterparty with respect to a Series of Notes, the relevant derivative transaction(s) will be documented by one or more confirmations and a 1992 ISDA Master Agreement made between the Issuer and KBC Bank NV, or such other agreement as may be specified in the relevant Supplemental Trust Deed and Final Terms. Where the Swap Counterparty with respect to a Series of Notes is a party other than KBC Bank NV, the relevant derivative transaction(s) will be documented pursuant to such 1992 ISDA Master Agreement and confirmation(s) as are specified in the relevant Supplemental Trust Deed and Final Terms. The documentation pursuant to which the relevant derivative transaction(s) is documented between the Issuer and the Swap Counterparty with respect to a Series of Notes is referred to with respect to such Series of Notes as the related "**Swap Agreement**".

A description of KBC Bank NV is set out above under the heading "*KBC Bank NV*".

Unless stated otherwise in the relevant Final Terms, a Swap Agreement may be terminated early in various circumstances, including:

(a) if withholding taxes are imposed on payments made by the Issuer or the Swap Counterparty, as the case may be; or

(b) at the option of one party, if there is a failure by the other party to pay any amounts due, or to comply with or perform any obligation under the Swap Agreement; or

(c) upon the Notes becoming payable in whole or in part in accordance with their conditions at any time prior to their maturity, other than in circumstances referred to in (d) below; or

(d) at the option of the Swap Counterparty under the Swap Agreement, if any of the Notes to which such Swap Agreement relates to are purchased by or on behalf of the Swap Counterparty, or any of its subsidiaries or affiliates; or

(e) upon the occurrence of certain other events with respect to either party to the Swap Agreement, including insolvency, merger without an assumption of the obligations in respect of the Swap Agreement or changes in law resulting in illegality; or

(f) upon the occurrence of certain other events with respect to the Swap Counterparty such as a breach of a representation, default under a Specified Transaction (as defined in the Swap Agreement).

On the occurrence of any of the events referred to above, a termination payment will be due to be paid by the Issuer to the Swap Counterparty or to the Issuer by the Swap Counterparty in respect of the Swap Agreement.

There is no guarantee that upon any such termination the funds realised from the disposal of the Swap Collateral plus or minus (as the case may be) the termination payment due in respect of the Swap Agreement will be sufficient to pay, in full, amounts owing to the Noteholders. To the extent any such shortfall arises, neither the Issuer nor the Swap Counterparty will be obliged to make any further payment to meet any such shortfall and accordingly no debt shall be owed by the Issuer or Swap Counterparty, as the case may be, in respect of any such shortfall. No other assets of the Issuer or Swap Counterparty, as the case may be, will be available to meet such shortfall. The Swap Counterparty shall not be entitled to institute or join any other person in bringing, instituting or joining, insolvency proceedings (whether court-based or otherwise) in relation to the Issuer.

Any termination payment in respect of the Swap Agreement will, unless stated otherwise in the relevant Final Terms, be based on the replacement cost or gain for a swap transaction with the same financial terms as the Swap Agreement. In all cases of early termination, the termination payment will be determined on the basis of quotations received from the leading dealers in the relevant market (failing which, by the Swap Counterparty) in accordance with the terms of the Swap Agreement.

The obligations of the Issuer to the Swap Counterparty under the Swap Agreement will be secured on the Series Secured Assets for the relevant Series of Notes. The respective rankings of the claims of, inter alia, the Noteholders of the relevant Series and the Swap Counterparty over the proceeds of enforcement of the relevant Series Secured Assets will be set out in the relevant Supplemental Trust Deed and Final Terms.

USE OF PROCEEDS AND EXPENSES

The net proceeds of each issue of a Series of Notes will be used by the Issuer in acquiring Series Collateral and/or in making an initial payment under a related Swap Agreement, if applicable.

Series Collateral

The Series Collateral for a Series of Notes shall be comprised of Eligible Assets. The Eligible Assets for a Series shall be specified in the applicable Final Terms, but shall in all cases comprise Programme Eligible Assets. "**Programme Eligible Assets**" means any securities (including shares, bonds and units in collective investment undertakings (including, but not limited to, UCITS within the meaning of Directive 85/611/EC)), deposits, money market instruments, derivative transactions and any other qualifying assets within the meaning of section 110 of the Taxes Consolidation Act 1997 (as amended) of Ireland, which are (i) obligations of an entity organised under the laws of any European Economic Area member state, any OECD member state, Jersey, Cayman Islands or Bermuda and (ii) which in each case have a scheduled maturity not later than fifteen years following the scheduled maturity of the Series of Notes for which such Eligible Asset is intended to comprise Series Collateral.

The relevant Final Terms will, in appropriate cases, specify that the Series Collateral for the relevant Series is comprised of:

(i) a deposit with, or money market instruments or other debt security issued or guaranteed by, KBC Bank NV; or

(ii) notes issued by Fairport Capital Investments p.l.c. ("**Fairport**"); or

(iii) any other Eligible Assets of the type specified in the applicable Final Terms (being in all cases Programme Eligible Assets), provided, where the relevant Series is to be listed on the Official List of the Irish Stock Exchange, that (a) except in cases of any such Eligible Asset which is an obligation of an obligor which has securities admitted to trading on a regulated or equivalent market, such Eligible Assets shall comprise obligations of more than 5 obligors and no obligor shall account for 20% or more of such Eligible Assets; and (b) in the case of any such Eligible Asset which is an equity security, such security shall be admitted to trading on a regulated or equivalent market.

Where the Series Collateral for a Series of Notes is comprised of Eligible Assets of the type referred to in any of paragraphs (i), (ii) or (iii) above, the relevant Final Terms shall identify the relevant Eligible Assets.

Where the Series Collateral for a Series of Notes is comprised of any other type of Eligible Assets, the relevant Eligible Assets will be described in a supplement to this Base Prospectus or in a Series Offering Document in respect of the relevant Series.

A description of KBC Bank NV is set out above under "*KBC Bank NV*". A description of Fairport is attached as Annex 1 to this Base Prospectus.

Swap Agreement

The relevant Final Terms will specify, in appropriate cases, that the Swap Counterparty with respect to the Swap Agreement (where applicable) related to a Series of Notes is KBC Bank NV. A description of KBC Bank NV is set out above under "*KBC Bank NV*".

Where the Swap Counterparty with respect to the Swap Agreement (where applicable) related to a Series of Notes is a party other than KBC Bank NV, the relevant Swap Counterparty will be described in a supplement to this Base Prospectus or in a Series Offering Document in respect of the relevant Series.

Expenses

The expenses for each issue of Notes will be identified in the relevant Final Terms.

TERMS AND CONDITIONS OF THE NOTES

The following (apart from the text in italics) is the text of the terms and conditions which, subject to completion and amendment pursuant to the Final Terms relating to a Series, and as supplemented, modified or replaced by the provisions of the Supplemental Trust Deed applicable to a Series, and as described in the section of this Base Prospectus headed "Summary of Provisions Relating to the Notes while in Global Form", will be applicable to the Global Note(s) or Global Certificates representing each Series and to the Definitive Bearer Notes or Individual Certificates (if any) issued in exchange therefor and will be endorsed on such Definitive Bearer Notes or Individual Certificates, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Final Terms and in the relevant Supplemental Trust Deed. Save as expressly stated, references in the Conditions to "Notes" are to the Notes of the relevant Series only and not to any other Series of Notes that may be issued under the Programme and references to "Noteholders" are to holders of Notes of the relevant Series only acting in their capacity as such. References to the "Swap Agreement" and the "Swap Counterparty" in the Conditions are applicable only if the Supplemental Trust Deed and the Final Terms indicate that the Issuer has entered into a Swap Agreement (as defined below) in connection with the Notes of the relevant Series.

The Notes are constituted and secured by a master trust deed dated 28 March 2007 as amended and restated from time to time and as most recently amended and restated on 29 June 2009 (the "**Master Trust Deed**") made between, *inter alios*, the Issuer and The Bank of New York Mellon (the "**Trustee**"), as trustee for the holders of the Notes, as supplemented by a supplemental trust deed (each a "**Supplemental Trust Deed**") dated the date of issue of the Notes (the "**Issue Date**") made between, *inter alios*, the Issuer and the Trustee. The Master Trust Deed incorporates by reference the provisions of a master definitions and common terms agreement dated 28 March 2007 as amended and restated from time to time and as most recently amended and restated on 29 June 2009 made between, *inter alios*, the Issuer and the Trustee (the "**Master Definitions and Common Terms Agreement**"). The Master Trust Deed and the Supplemental Trust Deed are referred to together as the "**Trust Deed**" with respect to the Notes. The Notes will be issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") issued on different dates. Payments under the Notes will be made pursuant to a master agency agreement dated 28 March 2007 as amended and restated from time to time and as most recently amended and restated on 29 June 2009 (the "**Agency Agreement**"), which the Issuer has entered into with the Trustee, The Bank of New York Mellon as principal paying agent (in such capacity the "**Principal Paying Agent**" and together with any other paying agents appointed, the "**Paying Agents**"), as calculation agent (in such capacity, the "**Calculation Agent**"), as transfer agent (in such capacity, the "**Transfer Agent**") and as registrar (in such capacity, the "**Registrar**"), KBC Bank NV as custodian (in such capacity, the "**Custodian**"), KBC Asset Management NV as administration agent (in such capacity, the "**Administration Agent**"), and together with the Paying Agents, Calculation Agent, Custodian, Transfer Agent and Registrar, the "**Agents**") and KBC Asset Management NV as portfolio manager (the "**Portfolio Manager**"). The Agency Agreement also incorporates by reference the provisions of the Master Definitions and Common Terms Agreement. References in these Conditions (as defined below) to the Principal Paying Agent and the other Agents and to the "**Agency Agreement**" shall be construed accordingly. All Series Collateral (as defined in Condition 4(a)) taking the form of securities will be held or caused to be held on behalf of the Issuer by the Custodian pursuant to the Agency Agreement (as amended from time to time) and/or such other agreement as may be specified in the relevant Supplemental Trust Deed and the Conditions. References in these Conditions to the "**Custodian**" shall be construed accordingly. Series Secured Assets (as defined in Condition 4(a)) shall, unless provided otherwise in the relevant Supplemental Trust Deed with respect to a Series, be managed on behalf of the Issuer by the Portfolio Manager

pursuant to the terms of a portfolio management agreement made between the Issuer and the Portfolio Manager on 28 March 2008 as amended and restated from time to time and as most recently amended and restated on 29 June 2009 (the "**Portfolio Management Agreement**"). Statements in these terms and conditions, as amended and supplemented by the relevant Supplemental Trust Deed, and as described in the relevant Final Terms (the "**Conditions**") are subject to the detailed provisions of the Trust Deed and the Agency Agreement, copies of which are available for inspection at the registered office of the Issuer and the specified offices of the Principal Paying Agent. The Trust Deed includes the form of the Notes in bearer and registered form, the interest coupons (if any) relating to Notes in bearer form (the "**Coupons**") and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**"). Noteholders and Couponholders (each as defined in Condition 1) are entitled to the benefit of, and are deemed to have notice of, all the provisions contained in the Trust Deed and the relevant Final Terms and those applicable to them of the Agency Agreement.

If so indicated in the Supplemental Trust Deed and the Final Terms the Issuer has entered into one or more confirmations (the "**Confirmations**") documenting the terms of a swap, option or other over-the-counter derivative transaction relating to the Notes, effective on the Issue Date, pursuant to a 1992 ISDA Master Agreement with KBC Bank NV or such other counterparty whose identity is indicated in the Supplemental Trust Deed and the Final Terms (the "**Swap Counterparty**") (such 1992 ISDA Master Agreement together with the Confirmations, the "**Swap Agreement**").

Capitalised terms used but not defined in these Conditions shall have the meanings or values attributed to them in the Trust Deed, unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

The Notes are serially numbered and issued in bearer form ("**Bearer Notes**") in the denomination of the Specified Denominations(s) or in registered form ("**Registered Notes**") in amounts of the Specified Denomination or such integral multiples of a stated amount in excess thereof ("**Authorised Denominations**") as are specified in the Supplemental Trust Deed and the Final Terms, if applicable. "**Specified Denomination**" means such amount as is specified in the Supplemental Trust Deed and the Final Terms, if applicable, subject to a minimum denomination of €1,000 (or its equivalent in any other currency as at the date of issue of these Notes). All Registered Notes shall have the same Specified Denomination.

So long as the Notes are represented by a temporary Global Note, permanent Global Note or Global Certificate and the relevant clearing system(s) so permit, the Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradable Amount provided in the Supplemental Trust Deed and the Final Terms, if applicable.

Subject as described in "*Summary of Provisions relating to the Notes while in Global Form*", Bearer Notes are issued with Coupons (and, where appropriate, a Talon) attached save in the case of Notes which do not bear interest in which case references to interest (other than in relation to interest due after the due date for redemption in respect of overdue amounts of principal, both before and after judgment) and Coupons and Talons in these Conditions are not applicable.

Subject as described in "*Summary of Provisions relating to the Notes while in Global Form*", Registered Notes are represented by registered certificates ("**Individual Certificates**"), and, save as provided in Condition 2(c), each

Individual Certificate represents a holding of one or more Registered Notes by the same holder.

Title to the Bearer Notes, the Coupons appertaining thereto and Talons shall pass by delivery. Title to the Registered Notes shall pass by assignment and registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. A copy of the Register showing current holdings of Registered Notes will be available at the registered office of the Issuer. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Bearer Note, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions "**Noteholder**" means (i) the holder of any definitive Bearer Note or (ii) the person in whose name a Registered Note is registered and "**Couponholder**" means the holder of any Coupon and "**Talonholder**" means the holder of any Talon.

The Issuer, the Trustee and each Paying Agent shall deem and treat each Noteholder, Couponholder and Talonholder as the absolute owner of the relevant Note, Coupon or Talon (whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership or writing thereon) for the purpose of making payments and for all other purposes.

2 Exchanges of Bearer Notes and Transfers of Registered Notes

(a) Exchange of Bearer Notes

Subject as provided in Condition 2(f), Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes of the Specified Denomination at the request in writing of the relevant Noteholder and upon surrender of each Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of the Registrar or any Transfer Agent; provided, however, that where a Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 13(b)(ii)) for any payment of interest, the Coupon and Talon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination.

(b) Transfer of Registered Notes

A Registered Note may be transferred in whole or in part in the Specified Denomination upon the surrender of the Individual Certificate representing such Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Individual Certificate, a new Individual Certificate in respect of the balance not transferred will be issued to the transferor. A transfer of a Registered Note shall be completed by the recording of the holding of such Registered Notes in the Register. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A

copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) Exercise of Options or Partial Redemption in respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholder's option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Individual Certificate, a new Individual Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Individual Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Individual Certificates shall only be issued against surrender of the existing Individual Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Individual Certificate representing the enlarged holding shall only be issued against surrender of the Individual Certificate representing the existing holding.

(d) Delivery of new Individual Certificates

Each new Individual Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of a duly completed request for exchange or the surrender of the Certificate for exchange together with satisfaction of any other requirements imposed by these Conditions. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer or Individual Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Individual Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets set the payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) Exchange free of charge

Exchange and transfer of Notes or Individual Certificates on registration or transfer or exercise of an option or partial redemption will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect of) any tax, duty or other governmental charges which may be imposed in relation to such registration or transfer.

(f) Closed periods

No Noteholder may require the transfer of a Registered Note to be registered or a Bearer Note to be exchanged for a Registered Note (i) during the period of 15 days ending on the due date for any payment of principal on that Note, (ii) during the period of 15 days prior to any date on which Notes may be drawn for redemption by the Issuer at its option pursuant to Condition 7(c), (iii) after any such Note has been drawn for redemption in whole or in part or (iv) during the

period of seven days ending on (and including) any Record Date. A Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Individual Certificate is simultaneously surrendered not later than the relevant Record Date.

3 Status

(a) Senior Notes

This Condition 3(a) is applicable only in relation to Notes specified in the applicable Final Terms as being senior ("**Senior Notes**"). The Senior Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series. In order to meet its payment obligations under the Senior Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets (as defined in Condition 4(a)). Therefore, the holders of Senior Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(b) Class A Mezzanine Notes

This Condition 3(b) is applicable only in relation to Notes specified in the applicable Final Terms as being class A mezzanine ("**Class A Mezzanine Notes**"). The Class A Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes of the relevant Series. In order to meet its payment obligations under the Class A Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class A Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(c) Class B Mezzanine Notes

This Condition 3(c) is applicable only in relation to Notes specified in the applicable Final Terms as being class B mezzanine ("**Class B Mezzanine Notes**"). The Class B Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes or Class A Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class B Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore,

the holders of Class B Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(d) Class C Mezzanine Notes

This Condition 3(d) is applicable only in relation to Notes specified in the applicable Final Terms as being class C mezzanine ("**Class C Mezzanine Notes**"). The Class C Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes or Class B Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class C Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class C Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(e) Class D Mezzanine Notes

This Condition 3(e) is applicable only in relation to Notes specified in the applicable Final Terms as being class D mezzanine ("**Class D Mezzanine Notes**"). The Class D Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes or Class C Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class D Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class D Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(f) Class E Mezzanine Notes

This Condition 3(f) is applicable only in relation to Notes specified in the applicable Final Terms as being class E mezzanine ("**Class E Mezzanine Notes**"). The Class E Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class F Mezzanine Notes, Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes or Class D Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class E Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class E Mezzanine Notes and Coupons must rely on the

proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(g) Class F Mezzanine Notes

This Condition 3(g) is applicable only in relation to Notes specified in the applicable Final Terms as being class F mezzanine ("**Class F Mezzanine Notes**"). The Class F Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class G Mezzanine Notes, Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes or Class E Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class F Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class F Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(h) Class G Mezzanine Notes

This Condition 3(h) is applicable only in relation to Notes specified in the applicable Final Terms as being class G mezzanine ("**Class G Mezzanine Notes**"). The Class G Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Class H Mezzanine Notes and Subordinated Notes (each as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes or Class F Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class G Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class G Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(i) Class H Mezzanine Notes

This Condition 3(i) is applicable only in relation to Notes specified in the applicable Final Terms as being class H mezzanine ("**Class H Mezzanine Notes**"). The Class H Mezzanine Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and senior to any Subordinated Notes (as defined below) of the relevant Series but junior to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes or Class G Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Class H Mezzanine Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Class H Mezzanine Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

(j) Subordinated Notes

This Condition 3(j) is applicable only in relation to Notes specified in the applicable Final Terms as being subordinated ("**Subordinated Notes**"). The Subordinated Notes and Coupons are direct, general, unconditional, secured limited recourse obligations of the Issuer and rank *pari passu* without any preference among themselves and subordinate to any Senior Notes, Class A Mezzanine Notes, Class B Mezzanine Notes, Class C Mezzanine Notes, Class D Mezzanine Notes, Class E Mezzanine Notes, Class F Mezzanine Notes, Class G Mezzanine Notes and Class H Mezzanine Notes of the relevant Series. In order to meet its payment obligations under the Subordinated Notes and Coupons, the Issuer must rely solely upon payments received out of the relevant Series Secured Assets. Therefore, the holders of Subordinated Notes and Coupons must rely on the proceeds of such payments to be applied by the Issuer in accordance with (and subject to the priority of payments described in) Condition 4.

4 Security

(a) Security

The Notes shall be secured pursuant to the Supplemental Trust Deed and/or a Belgian law pledge made between, *inter alios*, the Issuer as pledgor, the Trustee as pledgee and the Custodian (each a "**Series Pledge Agreement**"). The security so granted is referred to as the "**Series Security**" and the assets over which the Series Security is granted are referred to as the "**Series Secured Assets**". The Series Security may include the following security interests granted in favour of the Trustee:

(i) a charge and/or assignment and/or pledge of all of the Issuer's right, title, interest and benefit, present and future, in, to and under the custody account (the "**Series Custody Account**") maintained by the Custodian on behalf of the Issuer to which the collateral acquired by the Issuer with all or part of the proceeds of the Notes and any replacement collateral (the "**Series Collateral**") is credited and all Series Collateral now or at any time hereafter standing to the credit thereof;

(ii) a charge and/or assignment and/or pledge of all of the Issuer's right, title, interest and benefit, present and future, in, to and under the cash account (the "**Series Cash Account**") maintained by the Custodian on behalf of the issuer to which any cash received by the Issuer in connection with the Series Secured Assets is credited and all monies now or at any time hereafter standing to the credit thereof and all entitlements to interest and other rights and benefits accruing thereto or arising in connection therewith; and

(iii) an assignment of all of the Issuer's right, title, interest and benefit, present and future in, to and under the Swap Agreement (if any), the Agency Agreement to the extent that it relates to the Notes, the Portfolio Management Agreement to the extent that it relates to the Notes and any other document entered into by the Issuer in connection with the Notes (together, the "**Series Documents**") (other than the Supplemental Trust Deed and Series Pledge Agreement) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party pursuant to the provisions of the Series Documents (including, for the avoidance of doubt, any agreement entered into by the

Issuer as a replacement of any of such agreements upon the termination of such agreement), including all rights to receive payment of any amounts payable or which may become payable or be distributed to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof.

(b) Application of Proceeds

The Trustee shall (subject to the provisions of the Supplemental Trust Deed) apply all moneys received by it under the provisions of the Master Trust Deed, the Supplemental Trust Deed and the Series Pledge Agreement in connection with the realisation or enforcement of the Series Security in the following order of priority:

(i) If "Noteholder Priority" is specified in the Supplemental Trust Deed:

(1) first, to pay on a *pro rata* and *pari passu* basis, any remuneration then due to any receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by any receiver together with interest thereon and to pay the fees, costs, expenses and liabilities due to the Trustee;

(2) second, to pay any due but unpaid Administrative Expenses (as defined in the Master Trust Deed) incurred with respect to the relevant Series, in relation to each item thereof, on a *pro rata* and *pari passu* basis;

(3) third, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders in respect of the Senior Notes;

(4) fourth, to pay, on a *pro rata* and *pari passu* basis, all amounts of principal due thereon until redemption in full of the Senior Notes;

(5) fifth, to pay, on a *pro rata* and *pari passu* basis, any amounts due and payable to the relevant Swap Counterparty under the Swap Agreement (if any), other than any Swap Subordinated Amounts (as defined in the Master Trust Deed);

(6) sixth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class A Mezzanine Notes;

(7) seventh, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class A Mezzanine Notes;

(8) eighth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class B Mezzanine Notes;

(9) ninth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class B Mezzanine Notes;

(10) tenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class C Mezzanine Notes;

(11) eleventh, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class C Mezzanine Notes;

(12) twelfth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class D Mezzanine Notes;

(13) thirteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class D Mezzanine Notes;

(14) fourteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class E Mezzanine Notes;

(15) fifteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class E Mezzanine Notes;

(16) sixteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class F Mezzanine Notes;

(17) seventeenth, to pay, on a *pro ra*ta and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class F Mezzanine Notes;

(18) eighteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class G Mezzanine Notes;

(19) nineteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class G Mezzanine Notes;

(20) twentieth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class H Mezzanine Notes;

(21) twenty-first, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class H Mezzanine Notes;

(22) twenty-second, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders in respect of the Subordinated Notes (if any);

(23) twenty third, to pay, on a *pro rata* and *pari passu* basis, all amounts of principal due thereon until redemption in full of the Subordinated Notes (if any);

(24) twenty fourth, to pay, on a *pro rata* and *pari passu* basis, any amounts due and payable to the Swap Counterparty under the Swap Agreement (if any) in respect of any Swap Subordinated Amounts; and

(25) twenty fifth, to pay the balance (if any) to the Issuer.

(ii) If "Pari Passu Ranking" is specified in the Supplemental Trust Deed:

(1) first, to pay on a *pro rata* and *pari passu* basis, any remuneration then due to any receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by any receiver together with interest thereon and to pay the fees, costs, expenses and liabilities due to the Trustee;

(2) second, to pay any due but unpaid Administrative Expenses (as defined in the Master Trust Deed) incurred with respect to the relevant Series, in relation to each item thereof, on a *pro rata* and *pari passu* basis;

(3) third, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Senior Notes and any amounts due and payable to the Swap Counterparty under the Swap Agreement (if any), other than any Swap Subordinated Amounts (as defined in the Master Trust Deed);

(4) fourth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class A Mezzanine Notes;

(5) fifth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class B Mezzanine Notes;

(6) sixth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class C Mezzanine Notes;

(7) seventh, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class D Mezzanine Notes;

(8) eighth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class E Mezzanine Notes;

(9) ninth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class F Mezzanine Notes;

(10) tenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class G Mezzanine Notes;

(11) eleventh, to pay, on a *pro rata* and *pari passu* basis, amounts of interest and principal then due to the Noteholders in respect of the Class H Mezzanine Notes;

(12) twelfth, to pay, on a pro rata and pari passu basis, all amounts of interest and principal then due to Noteholders in respect of the Subordinated Notes (if any);

(13) thirteenth, to pay, on a *pro rata* and *pari passu* basis, any amounts due and payable to the Swap Counterparty under the Swap Agreement (if any) in respect of any Swap Subordinated Amounts; and

(14) fourteenth, to pay the balance (if any) to the Issuer.

(iii) If "Counterparty Priority" is specified in the Supplemental Trust Deed:

(1) first, to pay on a pro rata and pari passu basis, any remuneration then due to any receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by any receiver together with interest thereon and to pay the fees, costs, expenses and liabilities due to the Trustee;

(2) second, to pay any due but unpaid Administrative Expenses (as defined in the Master Trust Deed) incurred with respect to the relevant Series, in relation to each item thereof, on a pro rata and pari passu basis;

(3) third, to pay, on a pro rata and pari passu basis, any amounts due and payable to the Swap Counterparty under the Swap Agreement (if any), other than any Swap Subordinated Amounts (as defined in the Master Trust Deed);

(4) fourth, to pay, on a pro rata and pari passu basis, amounts of interest then due to the Noteholders in respect of the Senior Notes;

(5) fifth, to pay, on a pro rata and pari passu basis, all amounts of principal due thereon until redemption in full of the Senior Notes;

(6) sixth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class A Mezzanine Notes;

(7) seventh, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class A Mezzanine Notes;

(8) eighth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class B Mezzanine Notes;

(9) ninth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class B Mezzanine Notes;

(10) tenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class C Mezzanine Notes;

(11) eleventh, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class C Mezzanine Notes;

(12) twelfth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class D Mezzanine Notes;

(13) thirteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class D Mezzanine Notes;

(14) fourteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class E Mezzanine Notes;

(15) fifteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class E Mezzanine Notes;

(16) sixteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class F Mezzanine Notes;

(17) seventeenth, to pay, on a *pro ra*ta and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class F Mezzanine Notes;

(18) eighteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class G Mezzanine Notes;

(19) nineteenth, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class G Mezzanine Notes;

(20) twentieth, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders of the Class H Mezzanine Notes;

(21) twenty-first, to pay, on a *pro rata* and *pari passu* basis, amounts of principal due thereon until redemption in full of the Class H Mezzanine Notes;

(22) twenty second, to pay, on a *pro rata* and *pari passu* basis, amounts of interest then due to the Noteholders in respect of the Subordinated Notes (if any);

(23) twenty third, to pay, on a *pro rata* and *pari passu* basis, all amounts of principal due thereon until redemption in full of the Subordinated Notes (if any);

(24) twenty fourth, to pay, on a pro rata and pari passu basis, any amounts due and payable to the Swap Counterparty under the Swap Agreement (if any) in respect of any Swap Subordinated Amounts; and

(25) twenty fifth, to pay the balance (if any) to the Issuer.

(iv) If "Other Priority" is specified in the Supplemental Trust Deed:

the Trustee shall apply all monies received by it pursuant to the Supplemental Trust Deed and the Master Trust Deed in connection with the realisation or enforcement of the Series Security in the order of priority set out in the Supplemental Trust Deed.

The applicable priority and ranking provisions in respect of each Series of Notes will be disclosed in the relevant Final Terms.

(c) Realisation of Security

In the event of any of the Series Security becoming enforceable (as described below), the Trustee may at its discretion and:

(i) if requested in writing by the holders of at least one-fifth in aggregate principal amount of the Notes then outstanding (as defined in the Trust Deed); or

(ii) if directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders,

(whichever shall be the first request or direction to be received by the Trustee) shall in each such case, subject to the Trustee first being indemnified and/or secured to its satisfaction, enforce the Series Security in accordance with the Trust Deed and/or Series Pledge Agreement, but without any liability as to the consequence of such action and without having regard to the effect of such action on individual Noteholders or Couponholders and provided that the Trustee shall not be required to take any action that would involve any personal liability or expense without first being indemnified and/or secured to its satisfaction.

The Series Security shall become enforceable upon the occurrence of an Event of Default (described in Condition 14).

(d) Shortfall after Application of Proceeds

The Issuer may not have sufficient funds to make all payments due in respect of the Notes and (if applicable) Coupons.

If the net proceeds of the Series Security upon realisation thereof in accordance with this Condition 4 and the Trust Deed and/or the Series Pledge Agreement are not sufficient to make all payments due in respect of the Notes and Coupons (if any), the obligations of the Issuer in respect of the Notes and Coupons (if any) will be limited to such net proceeds and no other assets of the Issuer will be available for any further payments in respect of the Notes and Coupons (if any). Claims in respect of any difference between the amount of the net proceeds of

the Series Security after enforcement thereof and the amount which would otherwise have been payable under the Notes and Coupons (if any) (a "**shortfall**") shall be extinguished and failure to make any payment in respect of any such shortfall shall in no circumstances constitute an Event of Default under any other Series of Notes. Any such shortfall shall be borne by the Noteholders and Couponholders on a pro rata basis. In such circumstances the Noteholders will not have any right to take any further action against the Issuer in respect of the shortfall.

5 Restrictions

So long as any of the Notes remain outstanding, the Issuer will not, without the consent of the Trustee, except as contemplated by these Conditions (including Condition 21) and the documents relating to or establishing the Programme (the "**Programme Documents**"), incur any other indebtedness for borrowed moneys, engage in any business, declare any dividends, have any employees or have any subsidiaries.

6 Interest

If the Notes are specified in the applicable Final Terms as Index Linked Interest Notes, then the provisions of this Condition 6 are subject to Conditions 9 and 11. If the Notes are specified in the applicable Final Terms as Equity Linked Interest Notes, then the provisions of this Condition 6 are subject to Conditions 10 and 11. If the Notes are specified in the applicable Final Terms as Credit Linked Notes, then the provisions of this Condition 6 are subject to Condition 12.

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, the expression, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

The Calculation Agent will, at or as soon as practicable after each time at which the Fixed Coupon Amount or the Broken Amount, as the case may be, is to be determined, determine such Fixed Coupon Amount or Broken Amount for the relevant Fixed Interest Period. The Calculation Agent will notify the Issuer and the Principal Paying Agent of the Fixed Coupon Amount or the Broken Amount, as the case may be, for the relevant Fixed Interest Period as soon as practicable after calculating the same.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by the Calculation Agent by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the

applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

For the purposes of these Terms and Conditions:

"**Fixed Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

(i) if "**1/1**" is specified, 1;

(ii) if "**Actual/Actual**", "**Actual/Actual (ISDA)**", "**Act/Act**" or "**Act/Act (ISDA)**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/Actual (ICMA**)" or "**Act/Act (ICMA)**" is specified, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "ICMA Rule Book"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non US dollar denominated straight and convertible bonds issued after December 31, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding to the Calculation Period in respect of which payment is being made;

(iv) if "**Actual/365 (Fixed)**", "**Act/365 (Fixed)**", "**A/365 (Fixed**)" or "**A/365F**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365;

(v) if "**Actual/360**", "**Act/360**" or "**A/360**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 360;

(vi) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period unless such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vii) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless such number would be 31, in which case D_2 will be 30;

(viii) if "**30E/360 (ISDA)**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(b) Interest on Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes and Currency Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note, Index Linked Interest Note, Equity Linked Interest Note, Commodity Linked Interest Note and Currency Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) (each an "**Interest Payment Date**") in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest

Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition (6)(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day, unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Wellington, respectively), or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "**TARGET System**") is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes,

Commodity Linked Interest Notes and Currency Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes, published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Definitions**") and under which:

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter- bank offered rate ("**LIBOR**") or on the Euro-zone inter-bank offered rate ("**EURIBOR**"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the 2006 ISDA Definitions.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Calculation Agent will be deemed to have discharged its obligations under Condition 6(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time) in the case of LIBOR or 11.00 a.m. (Brussels time) in the case of EURIBOR on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Issuer and the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in

accordance with applicable market convention. The Calculation Agent will notify the Principal Paying Agent of the Interest Amount payable on the Notes in respect of each Specified Denomination for the relevant Interest Period as soon as practicable after calculating the same.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period in accordance with this Condition 6(b):

(A) if "**1/1**" is specified, 1;

(B) if "**Actual/Actual**", "**Actual/Actual (ISDA)**", "**Act/Act**" or "**Act/Act (ISDA)**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(C) if "**Actual/Actual (ICMA)**" or "**Act/Act (ICMA)**" is specified, a fraction equal to "number of days accrued/number of days in year", as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "ICMA Rule Book"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non US dollar denominated straight and convertible bonds issued after December 31, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding to the Calculation Period in respect of which payment is being made;

(D) if "**Actual/365 (Fixed)**", "**Act/365 (Fixed)**", "**A/365 (Fixed)**" or "**A/365F**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365;

(E) if "**Actual/360**", "**Act/360**" or "**A/360**" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 360;

(F) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period unless such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(G) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless such number would be 31, in which case D_2 will be 30;

(H) if "**30E/360 (ISDA)**" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ X } (Y_2 - Y_1)] + [30 \text{ X } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will promptly notify the Principal Paying Agent of each Interest Amount and the Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the other Paying Agents and any stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes or Currency Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 18 as soon as possible after their determination but in no event later than the fourth Dublin Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes or Currency Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 18. For the purposes of this paragraph, the expression "Dublin Business Day" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in Dublin.

(vi) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), by the Calculation Agent,

shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Interest on Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless either, upon due presentation thereof, payment of principal is improperly withheld or refused and/or delivery of any asset deliverable in respect of such Note is improperly not made. In such event, interest will continue to accrue until whichever is the earlier of: (1) the date on which all amounts due in respect of such Note have been paid and/or delivery of all assets deliverable in respect of such Note have been delivered; and (2) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent and/or all assets in respect of such Note have been received by any agent appointed by the Issuer to deliver such assets to Noteholders and notice to that effect has been given to the Noteholders in accordance with Condition 18,

Provided That if the Notes become redeemable pursuant to Condition 12(b) or Condition 12(c); and

(A) "Accrual of Interest upon Credit Event" is specified as Not Applicable in the applicable Final Terms, each Note shall cease to bear interest from the Interest Payment Date immediately preceding the Credit Event Determination Date (as defined in Condition 12(b) or (c), as the case may be, or, if the Credit Event Determination Date is an Interest Payment Date such Interest Payment Date or, if the Credit Event Determination Date, falls prior to the first Interest Payment Date, no interest shall accrue on the Notes; or

(B) "Accrual of Interest upon Credit Event" is specified as being Applicable in the applicable Final Terms, each Note shall cease to bear interest from the Credit Event Determination Date; and

Provided Further That, if

(A) Condition 12(d) or Condition 12(e) applies in respect of the Notes and in the case of Condition 12(d), a Repudiation/ Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date or, in the case

of Condition 12(e), a Failure to Pay has not occurred on or prior to the Grace Period Extension Date, as the case may be; and/or

(B) Condition 12(f) applies in respect of the Notes and the Scheduled Maturity Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, is postponed as provided therein,

then interest will accrue as provided in Condition 12(d), Condition 12(e) or Condition 12(f), as the case may be.

7 Redemption and Purchase

(a) Redemption at Maturity

Except in the case of Credit Linked Notes in which case the provisions of Condition 12 apply, unless previously redeemed or purchased and cancelled as specified below, each Note (unless it is an Index Linked Redemption Note, an Equity Linked Redemption Note or a Credit Linked Note or a Currency Linked Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) Redemption for Tax Reasons

If Condition 22(a) is specified as applicable in the applicable Final Terms, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note nor an Equity Linked Interest Note nor a Currency Linked Interest Note nor a Commodity Linked Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note or an Equity Linked Interest Note or a Currency Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 22(a) as a result of any change in, or amendment to, the laws or regulations of Ireland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

If Condition 22(b) is specified as applicable in the applicable Final Terms, this Condition 7(b) shall not apply to the Notes.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, giving the Issuer an option to redeem, the Issuer may, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 18; and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 18 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 18 at least 5 days prior to the Selection Date.

(d) Redemption at the Option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 18 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional

Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event the Trustee, at its option, may elect by notice to the Issuer and the relevant Noteholder to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 14.

(e) Early Redemption Amounts

For the purpose of these Terms and Conditions, unless otherwise specified in the applicable Final Terms the Early Redemption Amount in respect of any Note shall be calculated as follows:

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or

(iii) in the case of Zero Coupon Notes, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

Early Redemption Amount = RP x (1 + AY)y

where:

"**RP**" means the Reference Price:

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms; or

(iv) in the case of an Index Linked Interest Note, an Index Linked Redemption Note, an Equity Linked Interest Note, an Equity Linked Redemption Note, a Credit Linked Note, a Currency Linked Interest Note, a Currency Linked Redemption Note or a Commodity Linked Note the Early Redemption Amount in respect of each nominal amount of such Notes equal to the lowest Specified Denomination will be determined by reference to the provisions in the applicable Final Terms.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) Illegality and Early Termination of Swap Agreement

In the event that the Calculation Agent determines in good faith either (i) that the performance of the Issuer's obligations under the Notes or any related Swap Agreement has or will become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, or (ii) that the related Swap Agreement (if any) has terminated, or will terminate for any reason on or prior to the next Interest Payment Date, then the Issuer, having given not less than 10 nor more than 30 days' notice to Noteholders in accordance with Condition 18 (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Notes, each Note being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(i) Early Redemption due to Acceleration of Series Collateral

If any of the Series Collateral becomes repayable prior to its stated date of maturity for whatever reason or there is a payment default (regardless of any actual or implied grace period which may be applicable thereto) in respect of any of the Series Collateral, the Issuer shall become entitled, but not obliged, upon giving not more than 30 nor less than 10 days' notice to the Noteholders in accordance with Condition 18, to redeem each Note in whole, but not in part, on the expiration of such notice at the applicable Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(j) Purchases

The Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to the Principal Paying Agent for cancellation.

(k) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (i) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(l) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 14 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 18.

8 Currency Linked Redemption Notes and Commodity Linked Redemption Notes

Provisions relating to the redemption of Currency Linked Redemption Notes and Commodity Linked Redemption Notes will be set out in the applicable Final Terms.

9 Index Linked Notes

If the Notes are specified as Index Linked Interest Notes and/or Index Linked Redemption Notes in the applicable Final Terms then the provisions of this Condition 9 apply, as applicable, as modified by the applicable Final Terms.

(a) Redemption of Index Linked Redemption Notes

Unless previously redeemed or purchased and cancelled, each nominal amount (the "**Specified Amount**") of the Notes equal to the lowest Specified Denomination set out in the applicable Final Terms will be redeemed by the Issuer at its Redemption Amount (as defined below) on the Maturity Date.

(b) Adjustments to an Index

(i) Successor Index Sponsor Calculates and Reports an Index

If a relevant Index is (i) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor (a "**Successor Index Sponsor**") acceptable to the Calculation Agent or (ii) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of that Index, then, in

each case, that index (the "Successor Index") will be deemed to be the Index.

(ii) Modification and Cessation of Calculation of an Index

If (i) on or prior to a Valuation Date the relevant Index Sponsor makes or announces that it will make a material change in the formula for or the method of calculating a relevant Index or in any other way materially modifies that Index (other than a modification prescribed in that formula or method to maintain that Index in the event of changes in constituent stock and capitalisation, contracts or commodities and other routine events) (an "**Index Modification**") or permanently cancels the Index and no Successor Index exists (an "**Index Cancellation**"), or (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and announce a relevant Index (an "**Index Disruption**" and, together with an Index Modification and an Index Cancellation, each an "**Index Adjustment Event**"), then the Issuer may take the action described in (a) or (b) below:

(a) require the Calculation Agent to determine if such Index Adjustment Event has a material effect on the Notes and, if so, shall calculate the Reference Price using, in lieu of a published level for that Index, the level for that Index as at the Valuation Time on that Valuation Date as determined by the Calculation Agent in accordance with the formula for and method of calculating that Index last in effect prior to the change, failure or cancellation, but using only those securities/commodities that comprised that Index immediately prior to that Index Adjustment Event; or

(b) give notice to the Noteholders in accordance with Condition 18 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the lowest Specified Denomination being redeemed at the Early Redemption Amount.

(iii) Correction of an Index

If Correction of Index Levels is specified as applying in the applicable Final Terms and the official closing level of an Index published on a Valuation Date is subsequently corrected and the correction (the "**Corrected Index Level**") is published by the Index Sponsor or (if applicable) the Successor Index Sponsor prior to the Correction Cut-Off Date specified in the applicable Final Terms, then such Corrected Index Level shall be deemed to be the closing level for such Index for that Valuation Date and the Calculation Agent shall use such Corrected Index Level in determining the relevant Interest Amount and/or Redemption Amount.

(iv) Notice

Upon the occurrence of an Index Adjustment Event, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 18 giving details of the action proposed to be taken in relation thereto.

(c) Definitions applicable to Index Linked Notes

For the purposes of this Condition 9:

"**Disrupted Day**" means:

(a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred; or

(b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor fails to publish the level of the Index, (ii) any Related Exchange fails to open for trading during its regular trading session or (iii) a Market Disruption Event has occurred.

"**Exchange**" means:

(a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, each exchange or quotation system specified as such for such Index in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the securities/commodities comprising such Index has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the securities/commodities comprising such Index on such temporary substitute exchange or quotation system as on the original Exchange); or

(b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, in relation to each component security of that Index (each a "**Component Security**"), the principal stock exchange on which such Component Security is principally traded, as determined by the Calculation Agent.

"**Exchange Business Day**" means:

(a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time; or

(b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor publishes the level of the Index and (ii) each Related Exchange is open for trading during its regular trading session, notwithstanding any such Related Exchange closing prior to its Scheduled Closing Time.

"**Indices**" and "**Index**" mean, subject to adjustment in accordance with Condition 9(b), the indices or index specified in the applicable Final Terms and related expressions shall be construed accordingly.

"**Index Sponsor**" means, in relation to an Index, the corporation or other entity that (a) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any, related to such Index and (b) announces (directly or through an agent) the level of such Index on a regular basis during each Scheduled Trading Day, which as of the Issue Date is the index sponsor specified for such Index in the applicable Final Terms.

"**Market Disruption Event**" means:

(a) in respect of an Index other than a Designated Multi-Exchange Index:

(i) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:

(A) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:

(x) on any relevant Exchange(s) relating to securities/commodities that comprise 20 per cent. or more of the level of the relevant Index; or

(y) in futures or options contracts relating to the relevant Index on any relevant Related Exchange; or

(B) any event (other than an event described in (ii) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (x) to effect transactions in, or obtain market values for, on any relevant Exchange(s) securities/commodities that comprise 20 per cent. or more of the level of the relevant Index, or (y) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Index on any relevant Related Exchange,

which in either case the Calculation Agent determines is material; or

(ii) the closure on any Exchange Business Day of any relevant Exchange(s) relating to securities/commodities that comprise 20 per cent. or more of the level of the relevant Index or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to the earlier of (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day or, if earlier, (B) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day; or

(b) in respect of a Designated Multi-Exchange Index either:

(i) the occurrence or existence, in respect of any Component Security, of:

(A) a Trading Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange in respect of such Component Security;

(B) an Exchange Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange in respect of such Component Security; or

(C) an Early Closure in respect of such Component Security, which the Calculation Agent determines is material; and

either:

(1) where the applicable Final Terms do not specify that the X Percentage applies, the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists, comprises 20 per cent. or more of the level of the Index; or

(2) where the applicable Final Terms specify that the X Percentage applies, the sum of (A) the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists, expressed as a percentage of the level of the Index, and (B) the X Percentage, comprises 20 per cent. or more of the level of the Index; or

(ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (A) a Trading Disruption at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange, (B) an Exchange Disruption at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange or (C) an Early Closure, in each case in respect of such futures or options contracts and which the Calculation Agent determines is material.

As used above:

"**Early Closure**" means the closure on any Exchange Business Day of the Exchange in respect of any Component Security or any Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange, as the case may be, at least one hour prior to the earlier of: (i) the actual closing time for the regular trading session on such Exchange or Related Exchange, as the case may be, on such Exchange Business Day; and (ii) the submission deadline for orders to be entered into the relevant Exchange or Related Exchange system for execution at the relevant Valuation Time on such Exchange Business Day.

"**Exchange Disruption**" means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general to effect transactions in, or obtain market values for: (i) any Component Security on the Exchange in respect of such Component Security; or (ii) futures or options contracts relating to the Index on any Related Exchange.

"**Trading Disruption**" means any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange, as the case may be, or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise: (i) relating to any Component Security on the Exchange in respect of such Component Security; or (ii) in futures or options contracts relating to the Index on any Related Exchange.

For the purposes of determining whether a Market Disruption Event in respect of an Index or a Component Security exists at any time, if a Market Disruption Event occurs in respect of a security/commodity included in the Index or such Component Security at that time, then the relevant percentage contribution of that security/commodity or Component Security, as the case may be, to the level of the Index shall be based on a comparison of (i) the portion of the level of the Index attributable to that security/commodity or Component Security, as the case may be, and (ii) the overall level of the Index, in each case either (a) except where the Index is a Designated Multi-Exchange Index, immediately before the occurrence of such Market Disruption Event or (b) where the Index is a Designated Multi-Exchange Index, using the official opening weightings as published by the Index Sponsor as part of the market "opening data".

"**Redemption Amount**" means, in relation to an Index Linked Redemption Note, the Redemption Amount specified in the applicable Final Terms or, if no such amount is specified in the applicable Final Terms, an amount equal to:

(A) in the case of a Call Index Linked Redemption Note:

(i) if the Reference Price, in relation to the Valuation Date specified for such Index Linked Redemption Note in the applicable Final Terms, is greater than the Strike Price:

$$\frac{\text{Reference Price}}{\text{Strike Price}} \; X \; \textit{Specified Amount} \text{ ; or}$$

(ii) if the Reference Price, in relation to the Valuation Date specified for such Index Linked Redemption Note in the applicable Final Terms, is equal to or less than the Strike Price:

100 per cent. x Specified Amount; or

(B) in the case of a Put Index Linked Redemption Note:

(i) if the Reference Price, in relation to the Valuation Date specified for such Index Linked Redemption Note in the applicable Final Terms, is less than the Strike Price:

$$100 \text{ per cent.} + \frac{\text{Strike Price} - \text{Reference Price}}{\text{Strike Price}} \; X \; \textit{Specified Amount} \text{ ; or}$$

(ii) if the Reference Price, in relation to the Valuation Date specified for such Index Linked Redemption Note in the applicable Final Terms, is equal to or greater than the Strike Price:

100 per cent. x Specified Amount,

provided always that the Redemption Amount shall in no event be less than zero. The Redemption Amount will be rounded to the nearest two decimal places (or, in the case of Japanese Yen, the nearest whole unit) in the Specified Currency, 0.005 (or, in the case of Japanese Yen, half of one unit) being rounded upwards.

"**Reference Price**" means, in relation to a Valuation Date:

(A) where the Notes are specified in the applicable Final Terms to relate to a single Index, an amount (which shall be deemed to be an amount of the Specified Currency) equal to the official closing level of the Index as determined by the Calculation Agent (or if a Valuation Time other than the Scheduled Closing Time is specified in the applicable Final Terms, the level of the Index determined by the Calculation Agent at such Valuation Time) on that Valuation Date (as defined below), without regard to any subsequently published correction; and

(B) where the Notes are specified in the applicable Final Terms to relate to a Basket of Indices, an amount (which shall be deemed to be an amount of the Specified Currency) equal to the sum of the values calculated for each Index as the official closing level of each Index as determined by the Calculation Agent (or if a Valuation Time other than the Scheduled Closing Time is specified in the applicable Final Terms, the level of the Index determined by the Calculation Agent at such Valuation Time) on that Valuation Date, without regard to any subsequently published correction, multiplied by the relevant Multiplier specified in the applicable Final Terms.

"**Related Exchange**" means, in relation to an Index, each exchange or quotation system specified as such for such Index in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Index has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Index on such temporary substitute exchange or quotation system as on the original Related Exchange), **Provided That** where "All Exchanges" is specified as the Related Exchange in the applicable Final Terms, "**Related Exchange**" shall mean each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Index.

"**Scheduled Closing Time**" means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

"**Scheduled Trading Day**" means:

(a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any day on which each Exchange and

each Related Exchange are scheduled to be open for trading for their respective regular trading sessions; or

(b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, (i) any day on which the Index Sponsor is scheduled to publish the level of that Index, (ii) each Related Exchange is scheduled to be open for trading for its regular trading session and (iii) where the applicable Final Terms specify that the X Percentage applies in relation to such Index, no more than 20 per cent. of the Component Securities that comprise the level of the Index are scheduled to be unavailable for trading on the relevant Exchange(s) by virtue of such day not being a day upon which any such relevant Exchange is scheduled to be open for trading for its regular trading sessions (such unavailable percentage being the "X Percentage").

For the purposes of determining the X Percentage, the relevant percentage contribution of each Component Security unavailable for trading shall be based on a comparison of (a) the portion of the level of that Index to that Component Security relative to (b) the overall level of that Index, in each case using the official opening weightings as published by the relevant Index Sponsor as part of the market "opening data".

"**Scheduled Valuation Date**" means, in relation to a Valuation Date, any original date that, but for the occurrence of an event causing a Disrupted Day, would have been that Valuation Date.

"**Strike Price**" means the amount specified as such in the applicable Final Terms.

"**Valuation Date**" means the date or, in the case of Index Linked Interest Notes, each date specified as such in the applicable Final Terms or, if any such date is not a Scheduled Trading Day, the next following Scheduled Trading Day unless Disrupted Day is specified as applying in the applicable Final Terms and, in the opinion of the Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day then:

(i) where the Notes are specified in the applicable Final Terms to relate to a single Index, that Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (i) that eighth Scheduled Trading Day shall be deemed to be that Valuation Date notwithstanding the fact that such day is a Disrupted Day and (ii) the Calculation Agent shall, where practicable, determine the Reference Price in the manner set out in the applicable Final Terms or, if not set out or not so practicable, determine the Reference Price by determining the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security/commodity comprised in the Index (or if an event giving rise to a Disrupted Day has occurred in respect of the relevant security/commodity on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security/commodity as of the Valuation Time on that eighth Scheduled Trading Day); or

(ii) where the Notes are specified in the applicable Final Terms to relate to a Basket of Indices, that Valuation Date for each Index not affected by the

occurrence of a Disrupted Day shall be the Scheduled Valuation Date and that Valuation Date for each Index affected by the occurrence of a Disrupted Day (each an "**Affected Index**") shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Affected Index, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to that Index. In that case, (i) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the Affected Index, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall, where applicable, determine the Reference Price using, in relation to the Affected Index, the level of that Index determined in the manner set out in the applicable Final Terms or, if not set out or if not so practicable, using the level of that Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating that Index last in effect prior to the occurrence of the Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security/commodity comprised in that Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security/commodity on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security/commodity as of the Valuation Time on that eighth Scheduled Trading Day).

"**Valuation Time**" means:

(a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date in relation to each Index to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time; or

(b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, (i) for the purposes of determining whether a Market Disruption Event has occurred: (A) in respect of a Component Security, the Scheduled Closing Time on the relevant Exchange and (B) in respect of any options contracts or futures contacts on the Index, the close of trading on the relevant Related Exchange, and (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor. If, for the purposes of (i) above, the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

10 Equity Linked Notes

If the Notes are specified as Equity Linked Interest Notes and/or Equity Linked Redemption Notes in the applicable Final Terms then the provisions of this Condition 10 apply, as applicable, as modified by the applicable Final Terms.

(a) Redemption of Equity Linked Redemption Notes

Unless previously redeemed or purchased and cancelled as specified below, each nominal amount (the "**Specified Amount**") of Equity Linked Redemption Notes equal to the lowest Specified Denomination set out in the applicable Final Terms will be redeemed by the Issuer (A) if Cash Settlement is specified in the applicable Final Terms, by payment of the Redemption Amount on the Maturity Date or (B) if Physical Delivery is specified in the applicable Final Terms, by delivery of the Asset Amount on the Maturity Date or (C) if Cash Settlement and/or Physical Delivery is specified in the applicable Final Terms, by payment of the Redemption Amount and/or by delivery of the Asset Amount on the terms set out in the applicable Final Terms, in each case on the Maturity Date, in each case subject as provided below.

(b) Potential Adjustment Events, De-listing, Merger Event, Tender Offer, Nationalisation and Insolvency, Correction of Share Prices and Adjustments for Equity Linked Notes in respect of Underlying Equities quoted in European Currencies

(i) If Potential Adjustment Events are specified as applying in the applicable Final Terms, then following the declaration by an Equity Issuer of the terms of any Potential Adjustment Event, the Calculation Agent will, in its sole and absolute discretion, determine whether such Potential Adjustment Event has a diluting, concentrative or other effect on the theoretical value of the Underlying Equities and, if so, will (a) make the corresponding adjustment, if any, to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent in its sole and absolute discretion determines appropriate to account for that diluting, concentrative or other effect (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Underlying Equity) and (b) determine the effective date of that adjustment. The Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon making any such adjustment, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18, stating the adjustment to the relevant Interest Amount and/or Redemption Amount and/or the Asset Amount, the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms and giving brief details of the Potential Adjustment Event.

For the purposes of this Condition 10:

"**Potential Adjustment Event**" means any of the following:

(a) a subdivision, consolidation or reclassification of relevant Underlying Equities (unless resulting in a Merger Event), or a free distribution or dividend of any such Underlying Equities to existing holders by way of bonus, capitalisation or similar issue;

(b) a distribution, issue or dividend to existing holders of the relevant Underlying Equities of (1) such Underlying Equities or (2) other

share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of an Equity Issuer equally or proportionately with such payments to holders of such Underlying Equities or (3) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Equity Issuer as a result of a spin-off or other similar transaction or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;

(c) an extraordinary dividend as determined by the Calculation Agent;

(d) a call by an Equity Issuer in respect of relevant Underlying Equities that are not fully paid;

(e) a repurchase by an Equity Issuer or any of its subsidiaries of relevant Underlying Equities whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;

(f) in respect of an Equity Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Equity Issuer, pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or

(g) any other event that has or may have, in the opinion of the Calculation Agent, a diluting, concentrative or other effect on the theoretical value of the relevant Underlying Equities.

(ii) If (x) De-listing, Merger Event, Nationalisation and Insolvency is specified as applying in the applicable Final Terms and/or (y) if Tender Offer is specified as applying in the applicable Final Terms and (in the case of (x)), a De-listing, Merger Event, Nationalisation or Insolvency occurs or (in the case of (y)) a Tender Offer occurs, in each case, in relation to an Underlying Equity, the Issuer in its sole and absolute discretion may:

(a) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The relevant adjustments may in the case of adjustments following a Merger Event or Tender Offer include, without limitation, adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares; or

(b) give notice to the Noteholders in accordance with Condition 18 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the lowest Specified Denomination being redeemed at the Early Redemption Amount.

If the provisions of Condition 10(b)(ii)(a) apply the Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of the Delisting, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon the occurrence (if applicable) of a De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 stating the occurrence of the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of these Terms and Conditions:

"**De-Listing**" means, in respect of any relevant Underlying Equities, the Exchange announces that pursuant to the rules of such Exchange, such Underlying Equities cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union);

"**Insolvency**" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of, or any analogous proceeding affecting, an Equity Issuer (A) all the Underlying Equities of that Equity Issuer are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Underlying Equities of that Equity Issuer become legally prohibited from transferring them;

"**Merger Date**" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent;

"**Merger Event**" means, in respect of any relevant Underlying Equities, any (a) reclassification or change of such Underlying Equities that results in a transfer of, or an irrevocable commitment to transfer, all such Underlying Equities outstanding to another entity or person, (b) consolidation, amalgamation, merger or binding share exchange of an Equity Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Equity Issuer is the continuing entity and which does not result in any such reclassification or change of all such Underlying Equities outstanding), (c) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Underlying Equities of the Equity Issuer that results in a transfer of or an irrevocable commitment to transfer all such Underlying Equities (other than such Underlying Equities owned or controlled by such other entity or person), or (d) consolidation, amalgamation, merger or binding share exchange of the Equity Issuer or

its subsidiaries with or into another entity in which the Equity Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Equities outstanding but results in the outstanding Underlying Equities (other than Underlying Equities owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Underlying Equities immediately following such event, in each case if the Merger Date is on or before the relevant Valuation Date or, if the Notes are to be redeemed by delivery of Underlying Equities, the Maturity Date;

"**Nationalisation**" means that all the Underlying Equities or all or substantially all the assets of an Equity Issuer are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof; and

"**Tender Offer**" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Equity Issuer, as determined by the Calculation Agent, based upon the making of filings with governmental or self regulatory agencies or such other information as the Calculation Agent deems relevant.

(iii) If Correction of Share Prices is specified as applying in the applicable Final Terms and the price of a Share published on a Valuation Date is subsequently corrected and the correction (the "**Corrected Share Price**") is published on the relevant Exchange prior to the Correction Cut-Off Date specified in the applicable Final Terms, then such Corrected Share Price shall be deemed to be the closing price for such Share for that Valuation Date and the Calculation Agent shall use such Corrected Share Price in determining the relevant Interest Amount and/or Redemption Amount.

(iv) In respect of Equity Linked Notes relating to Underlying Equities originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such Underlying Equities are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, then the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines in its sole and absolute discretion to be appropriate to preserve the economic terms of the Notes. The Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the Valuation Time. No adjustments under this Condition 10(b)(iv) will affect the currency denomination of any payments in respect of the Notes.

(c) Physical Delivery

If any Notes are to be redeemed by delivery of the Asset Amount, in order to obtain delivery of the Asset Amount(s) in respect of any Note:

(A) if such Note is represented by a Global Note, the relevant Noteholder must deliver to Euroclear or Clearstream, Luxembourg (as applicable), with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice substantially in the form set out in the Agency Agreement (the "**Asset Transfer Notice**"); and

(B) if such Note is in definitive form, the relevant Noteholder must deliver to any Paying Agent, with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice.

Forms of the Asset Transfer Notice may be obtained during normal business hours from the specified office of any Paying Agent.

An Asset Transfer Notice may only be delivered (i) if such Note is represented by a Global Note, in such manner as is acceptable to Euroclear or Clearstream, Luxembourg, as the case may be, which is expected to be by authenticated SWIFT message or tested telex or (ii) if such Note is in definitive form, in writing.

If this Note is in definitive form, this Note must be delivered together with the duly completed Asset Transfer Notice.

The delivery of the Asset Amount shall be made in the manner specified in the applicable Final Terms or in such other commercially reasonable manner as the Issuer shall, in its sole discretion, determine to be appropriate for such delivery and shall notify to the Noteholders in accordance with Condition 18.

All expenses including any applicable depositary charges, transaction or exercise charges, stamp duty, stamp duty reserve tax and/or other taxes or duties (together "**Delivery Expenses**") arising from the delivery and/or transfer of any Asset Amount shall be for the account of the relevant Noteholder and no delivery and/or transfer of any Asset Amount shall be made until all Delivery Expenses have been paid to the satisfaction of the Issuer by the relevant Noteholder.

An Asset Transfer Notice must:

(1) specify the name and address of the relevant Noteholder, any account details required for delivery as set out in the applicable Final Terms and the person from whom the Issuer may obtain details for the delivery of the Asset Amount if such delivery is to be made otherwise than in the manner specified in the applicable Final Terms;

(2) in the case of Notes represented by a Global Note, specify the nominal amount of Notes which are the subject of such notice and the number of the Noteholder's account at Euroclear or Clearstream, Luxembourg, as the case may be, to be debited with such Notes and irrevocably instruct and authorise Euroclear or Clearstream, Luxembourg, as the case may be, to debit the relevant Noteholder's account with such Notes on or before the Maturity Date;

(3) include an undertaking to pay all Delivery Expenses and, in the case of Notes represented by a Global Note, an authority to debit a specified account of the Noteholder at Euroclear or Clearstream, Luxembourg, as the case may be, in respect thereof and to pay such Delivery Expenses;

(4) specify an account to which any dividends payable pursuant to this Condition 10(c) or any other cash amounts specified in the applicable Final Terms as being payable are to be paid; and

(5) authorise the production of such notice in any applicable administrative or legal proceedings.

No Asset Transfer Notice may be withdrawn after receipt thereof by Euroclear, Clearstream, Luxembourg, or a Paying Agent, as the case may be, as provided above. After delivery of an Asset Transfer Notice, the relevant Noteholder may not transfer the Notes which are the subject of such notice.

In the case of Notes represented by a Global Note, upon receipt of such notice, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person specified therein as the Noteholder is the holder of the specified nominal amount of Notes according to its books.

Failure properly to complete and deliver an Asset Transfer Notice may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered as provided in these Terms and Conditions shall be made, in the case of Notes represented by a Global Note, by Euroclear or Clearstream, Luxembourg, as the case may be, after consultation with the Issuer and shall be conclusive and binding on the Issuer and the relevant Noteholder and, in the case of Notes in definitive form, by the relevant Paying Agent after consultation with the Issuer, and shall be conclusive and binding on the Issuer and the relevant Noteholder.

Subject as provided in this Condition, in relation to each Note which is to be redeemed by delivery of the Asset Amount, the Asset Amount will be delivered at the risk of the relevant Noteholder, in the manner provided above on the Maturity Date (such date, subject to adjustment in accordance with this Condition, the "**Delivery Date**"), provided that the Asset Transfer Notice is duly delivered to Euroclear, Clearstream, Luxembourg or a Paying Agent, as the case may be, with a copy to the Issuer, as provided above, not later than the close of business in each place of receipt on the Cut-Off Date.

If an Asset Transfer Notice is delivered to Euroclear, Clearstream, Luxembourg or a Paying Agent, as the case may be, with a copy to the Issuer, later than the close of business in each place of receipt on the Cut-Off Date, then the Asset Amount will be delivered as soon as practicable after the Maturity Date (in which case, such date of delivery shall be the Delivery Date) at the risk of such Noteholder in the manner provided above. For the avoidance of doubt, in such circumstances such Noteholder shall not be entitled to any payment, whether of interest or otherwise, as a result of such Delivery Date falling after the originally designated Delivery Date and no liability in respect thereof shall attach to the Issuer.

If, prior to the delivery of the Asset Amount in accordance with this Condition, a Settlement Disruption Event is subsisting, then the Delivery Date in respect of such Note shall be postponed until the date on which no Settlement Disruption Event is subsisting and notice thereof shall be given to the relevant Noteholder, in accordance with Condition 18. Such Noteholder shall not be entitled to any payment, whether of interest or otherwise, on such Note as a result of any delay in the delivery of the Asset Amount pursuant to this paragraph. Where delivery of the Asset Amount has been postponed as provided in this paragraph the Issuer shall not be in breach of these Conditions and no liability in respect thereof shall attach to the Issuer.

For so long as delivery of the Asset Amount in respect of any Note is not practicable by reason of a Settlement Disruption Event, then in lieu of physical settlement and notwithstanding any other provision hereof, the Issuer may elect in its sole discretion to satisfy its obligations in respect of the relevant Note by payment to the relevant Noteholder of the Disruption Cash Settlement Price not later than on the third Business Day following the date that the notice of such election (the "**Election Notice**") is given to the Noteholders in accordance with Condition 18. Payment of the Disruption Cash Settlement Price will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18.

For such period of time after the Maturity Date as any person other than the relevant Noteholder shall continue to be the legal owner of the securities comprising the Asset Amount (the "**Intervening Period**"), neither the Issuer nor any other such person shall (i) be under any obligation to deliver or procure delivery to the relevant Noteholder or any subsequent beneficial owner of such Note any letter, certificate, notice, circular or any other document or payment whatsoever received by that person in its capacity as the holder of such Note, (ii) be under any obligation to exercise or procure exercise of any or all rights (including voting rights) attaching to such Note during the Intervening Period or (iii) be under any liability to the relevant Noteholder, or any subsequent beneficial owner of such Note in respect of any loss or damage which the relevant Noteholder, or subsequent beneficial owner may sustain or suffer as a result, whether directly or indirectly, of that person being the legal owner of such Notes during such Intervening Period.

Any interest, dividend or other distribution in respect of any Asset Amount will be payable to the party that would receive such interest, dividend or other distribution according to market practice for a sale of the Underlying Equity executed on the Maturity Date and to be delivered in the same manner as the Asset Amount. Any such interest dividend or other distribution to be paid to a Noteholder shall be paid to the account specified in the relevant Asset Transfer Notice.

Where the Asset Amount is, in the determination of the Issuer, an amount other than an amount of Relevant Assets capable of being delivered, the Noteholders will receive an Asset Amount comprising of the nearest number (rounded down) of Relevant Assets capable of being delivered by the Issuer (taking into account that a Noteholder's entire holding may be aggregated at the Issuer's sole and absolute discretion for the purpose of delivering the Asset Amounts), and an amount in the Specified Currency which shall be the value of the amount of the Relevant Assets so rounded down, as calculated by the Calculation Agent in its sole and absolute discretion from such source(s) as it may select (converted if necessary into the Specified Currency by reference to such exchange rate as the Calculation Agent deems appropriate). Payment will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18.

For the purposes of this Condition 10(c):

"**Disruption Cash Settlement Price**" means an amount equal to the fair market value of the relevant Note (but not taking into account any interest accrued on such Note as such interest shall be paid pursuant to Condition 6) on such day as shall be selected by the Issuer in its sole and absolute discretion provided that such day is not more than 15 days before the date that the Election Notice is given as provided above adjusted to take account fully for any losses, expenses and costs to the Issuer of unwinding or adjusting any related Swap Agreement or other underlying or related hedging arrangements (including but not limited to

any options or selling or otherwise realising any Relevant Asset or other instruments of any type whatsoever which the Issuer may hold as part of such hedging arrangements), all as calculated by the Calculation Agent in its sole and absolute discretion; and

"**Settlement Disruption Event**" means an event beyond the control of the Issuer, as a result of which, in the opinion of the Calculation Agent, delivery of the Asset Amount by or on behalf of the Issuer in accordance with these Terms and Conditions and/or the applicable Final Terms is not practicable.

(d) Failure to Deliver due to Illiquidity

If "Failure to Deliver due to Illiquidity" is specified as applying in the applicable Final Terms and, in the opinion of the Calculation Agent, it is impossible or impracticable to deliver, when due, some or all of the Relevant Assets comprising the Asset Amount (the "**Affected Relevant Assets**"), where such failure to deliver is due to illiquidity in the market for the Relevant Assets (a "**Failure to Deliver**"), then:

(a) subject as provided elsewhere in these Terms and Conditions and/or the applicable Final Terms, any Relevant Assets which are not Affected Relevant Assets, will be delivered on the originally designated Delivery Date in accordance with Condition 10(c); and

(b) in respect of any Affected Relevant Assets, in lieu of physical settlement and notwithstanding any other provision hereof, the Issuer may elect in its sole discretion, in lieu of delivery of the Affected Relevant Assets, to pay to the relevant Noteholder the Failure to Deliver Settlement Price (as defined below) on the fifth Business Day following the date the Failure to Deliver Notice (as defined below) is given to the Noteholders in accordance with Condition 18. Payment of the Failure to Deliver Settlement Price will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18. The Issuer shall give notice (such notice a "**Failure to Deliver Notice**") as soon as reasonably practicable to the Noteholders in accordance with Condition 18 that the provisions of this Condition 10(d) apply.

In these Terms and Conditions:

"**Affiliate**" means in relation to any entity (the "**First Entity**"), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity. For these purposes "**control**" means ownership of a majority of the voting power of an entity.

"**Failure to Deliver Settlement Price**" means, in respect of each nominal amount of the Notes equal to the lowest Specified Denomination, the fair market value of the Affected Relevant Assets on the fifth Business Day prior to the date on which the Failure to Deliver Notice is given as provided above, less the proportionate cost to the Issuer of unwinding or adjusting any related Swap Agreement or other underlying or related hedging arrangements in respect of the Notes, all as calculated by the Calculation Agent in its sole and absolute discretion.

(e) Definitions applicable to Equity Linked Notes

For the purposes of this Condition 10:

"**Disrupted Day**" means any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred.

"**Equity Issuer**" means, in relation to an Underlying Equity, the issuer of such Underlying Equity.

"**Exchange**" means, in respect of an Underlying Equity, each exchange or quotation system specified as such for such Underlying Equity in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the Underlying Equity has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such Underlying Equity on such temporary substitute exchange or quotation system as on the original Exchange).

"**Exchange Business Day**" means any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

"**Market Disruption Event**" means, in respect of an Underlying Equity:

(a) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:

(i) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:

(A) relating to the Underlying Equity on the Exchange; or

(B) in futures or options contracts relating to the Underlying Equity on any relevant Related Exchange; or

(ii) any event (other than an event described in (b) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (A) to effect transactions in, or obtain market values for, the Underlying Equities on the Exchange, or (B) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Underlying Equity on any relevant Related Exchange,

which in either case the Calculation Agent determines is material; or

(b) the closure on any Exchange Business Day of any relevant Exchange(s) or Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day or if earlier (B) the submission deadline for orders to be entered into the Exchange or Related

Exchange system for execution at the Valuation Time on such Exchange Business Day.

"**Redemption Amount**" means, in relation to an Equity Linked Redemption Note, the Redemption Amount specified in the applicable Final Terms or, if no such amount is specified in the applicable Final Terms, an amount calculated by the Calculation Agent equal to:

(i) in the case of a Call Equity Linked Redemption Note:

(a) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is greater than the Strike Price:

$$\frac{\text{Reference Price}}{\text{Strike Price}} X \textit{ Specified Amount} \text{ ; or}$$

(b) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is equal to or less than the Strike Price:

100 per cent. x Specified Amount; or

(ii) in the case of a Put Equity Linked Redemption Note

(a) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is less than the Strike Price:

$$100 \text{ per cent.} + \frac{\text{Strike Price} - \text{Reference Price}}{\text{Strike Price}} X \textit{ Specified Amount} \text{ ; or}$$

(b) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is equal to or greater than the Strike Price:

100 per cent. x Specified Amount,

provided always that the Redemption Amount shall in no event be less than zero. The Redemption Amount will be rounded to the nearest two decimal places (or, in the case of Japanese Yen, the nearest whole unit) in the Specified Currency, 0.005 (or, in the case of Japanese Yen, half of one unit) being rounded upwards.

"**Reference Price**" means, in relation to a Valuation Date:

(A) where the Notes are specified in the applicable Final Terms to relate to a single Underlying Equity, an amount equal to the official closing price on that Valuation Date (or, if so specified in the applicable Final Terms the price at the Valuation Time on that Valuation Date) of the Underlying Equity quoted on the Exchange without regard to any subsequently published correction as determined by the Calculation Agent (or if, in the opinion of the Calculation Agent, no such price (or, as the case may be, no such official closing price) can be determined at such time and, if either Disrupted Day is specified as applying in the applicable Final Terms and that Valuation Date is not a Disrupted Day or if Disrupted Day is specified as not applying in the applicable Final Terms, an amount determined by

the Calculation Agent to be equal to the arithmetic mean of the fair market buying price at the Valuation Time on that Valuation Date and the fair market selling price at the Valuation Time on that Valuation Date for the Underlying Equity based, at the Calculation Agent's discretion, either on the arithmetic mean of the foregoing prices or the middle market quotations provided to it by two or more financial institutions (as selected by the Calculation Agent) engaged in the trading of the Underlying Equity or on such other factors as the Calculation Agent shall decide). The amount determined pursuant to the foregoing shall be converted, if Exchange Rate is specified as applying in the applicable Final Terms, into the Specified Currency at the Exchange Rate and such converted amount shall be the Reference Price; and

(B) where the Notes are specified in the applicable Final Terms to relate to a Basket of Underlying Equities, an amount equal to the sum of the values calculated for each Underlying Equity as the official closing price on that Valuation Date (or, if so specified in the applicable Final Terms, the price at the Valuation Time on that Valuation Date) of the Underlying Equity quoted on the relevant Exchange without regard to any subsequently published correction as determined by the Calculation Agent (or if, in the opinion of the Calculation Agent, no such price (or, as the case may be, any such official closing price) can be determined at such time and, if Disrupted Day is specified as applying in the applicable Final Terms, and that Valuation Date is not a Disrupted Day or if Disrupted Day is specified as not applying in the applicable Final Terms, an amount determined by the Calculation Agent to be equal to the arithmetic mean of the fair market buying price at the Valuation Time (or, as the case may be, of the closing fair market buying price) on that Valuation Date and the fair market selling price at the Valuation Time (or, as the case may be, of the closing fair market selling price) on that Valuation Date for the Underlying Equity based, at the Calculation Agent's discretion, either on the arithmetic mean of the foregoing prices or the middle market quotations provided to it by two or more financial institutions (as selected by the Calculation Agent) engaged in the trading of the Underlying Equity or on such other factors as the Calculation Agent shall decide), multiplied by the Multiplier specified in the applicable Final Terms. Each value determined pursuant to the foregoing shall be converted, if Exchange Rate is specified as applying in the applicable Final Terms, into the Specified Currency at the Exchange Rate and the sum of such converted amounts shall be the Reference Price.

"**Related Exchange**" means, in relation to an Underlying Equity, each exchange or quotation system specified as such in relation to such Underlying Equity in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Underlying Equity has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Underlying Equity on such temporary substitute exchange or quotation system as on the original Related Exchange), **Provided That** where "All Exchanges" is specified as the Related Exchange in the applicable Final Terms, "**Related Exchange**" shall mean each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Underlying Equity.

"**Scheduled Closing Time**" means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without

regard to after hours or any other trading outside of the regular trading session hours.

"**Scheduled Trading Day**" means any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

"**Scheduled Valuation Date**" means, in relation to a Valuation Date, any original date that, but for the occurrence of an event causing a Disrupted Day, would have been that Valuation Date.

"**Strike Price**" means the amount specified as such in the applicable Final Terms.

"**Underlying Equities**" and "**Underlying Equity**" mean the equity securities or equity security specified as such in the applicable Final Terms and related expressions shall be construed accordingly.

"**Valuation Date**" means the date or, in the case of Equity Linked Interest Notes, each date specified as such in the applicable Final Terms or, if any such date is not a Scheduled Trading Day, the next following Scheduled Trading Day unless Disrupted Day is specified as applying in the applicable Final Terms and, in the opinion of the Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day:

(a) where the Notes are specified in the applicable Final Terms to relate to a single Underlying Equity, that Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (i) the eighth Scheduled Trading Day shall be deemed to be that Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall, where practicable, determine the Reference Price in the manner set out in the applicable Final Terms or, if not set out or not so practicable, determine the Reference Price in accordance with its good faith estimate of the Reference Price as of the Valuation Time on that eighth Scheduled Trading Day; or

(b) where the Notes are specified in the applicable Final Terms to relate to a Basket of Underlying Equities, that Valuation Date for each Underlying Equity not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date and that Valuation Date for each Underlying Equity affected (each an "**Affected Equity**") by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Affected Equity unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to the Affected Equity. In that case (i) that eighth Scheduled Trading Day shall be deemed to be that Valuation Date for the Affected Equity, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall, where practicable, determine the Reference Price using, in relation to the Affected Equity, a price determined in the manner set out in the applicable Final Terms or, if not set out or if not so practicable, using its good faith estimate of the value for the Affected Equity as of the Valuation Time on that eighth Scheduled Trading Day and otherwise in accordance with the above provisions.

"**Valuation Time**" means the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date in relation to each Underlying Equity to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

11 Additional Disruption Events (applicable to Index Linked Notes and Equity Linked Notes only)

(a) Additional Disruption Event

If the Notes are Index Linked Notes or Equity Linked Notes and Additional Disruption Events are specified as applicable in the applicable Final Terms, then if an Additional Disruption Event occurs, the Issuer in its sole and absolute discretion may take the action described in (i) or (ii) below:

(i) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the Additional Disruption Event and determine the effective date of that adjustment; or

(ii) give notice to the Noteholders in accordance with Condition 18 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the lowest Specified Denomination being redeemed at the Early Redemption Amount.

Upon the occurrence of an Additional Disruption Event, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 stating the occurrence of the Additional Disruption Event, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

(b) Definitions applicable to Additional Disruption Events

"**Additional Disruption Event**" means any of Change of Law, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow, Insolvency Filing (applicable only for Equity Linked Redemption Notes) and/or Loss of Stock Borrow, in each case if specified in the applicable Final Terms.

"**Change in Law**" means that, on or after the Trade Date (as specified in the applicable Final Terms) (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Calculation Agent determines in its sole and absolute discretion that (X) it has become illegal to hold, acquire or dispose of any relevant Underlying Equity (in the case of Equity Linked Notes) or any relevant security/commodity comprised in an Index (in the case of Index Linked Notes) or (Y) it will incur a materially increased cost in performing its obligations in relation to the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on the tax position of the Issuer and/or any of its Affiliates).

"**Hedging Disruption**" means that the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s).

"**Hedging Shares**" means the number of Underlying Equities (in the case of Equity Linked Notes) or securities/commodities comprised in an Index (in the case of Index Linked Notes) that the Calculation Agent deems necessary to hedge the equity or other price risk of entering into and performing its obligations with respect to the Notes.

"**Increased Cost of Hedging**" means that the Issuer would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer and/or any of its Affiliates shall not be deemed an Increased Cost of Hedging.

"**Increased Cost of Stock Borrow**" means that the Issuer would incur a rate to borrow any Underlying Equity (in the case of Equity Linked Notes) or any security/commodity comprised in an Index (in the case of Index Linked Notes) that is greater than the Initial Stock Loan Rate.

"**Initial Stock Loan Rate**" means, in respect of an Underlying Equity (in the case of Equity Linked Notes) or a security/commodity comprised in an Index (in the case of Index Linked Notes), the Initial Stock Loan Rate specified in relation to such Underlying Equity, security or commodity in the applicable Final Terms.

"**Insolvency Filing**" means that an Equity Issuer institutes or has instituted against it by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, or it consents to a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official or it consents to such a petition, provided that proceedings instituted or petitions presented by creditors and not consented to by the Equity Issuer shall not be deemed an Insolvency Filing.

"**Loss of Stock Borrow**" means that the Issuer and/or any Affiliate is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) any Underlying Equity (in the case of Equity Linked Notes) or any securities/commodities comprised in an Index (in the case of Index Linked Notes) in an amount equal to the Hedging Shares at a rate equal to or less than the Maximum Stock Loan Rate.

"**Maximum Stock Loan Rate**" means, in respect of an Underlying Equity (in the case of Equity Linked Notes) or a security/commodity comprised in an Index (in the case of Index Linked Notes), the Maximum Stock Loan Rate specified in the applicable Final Terms.

12 Credit Linked Notes

If the Notes are specified as Credit Linked Notes in the applicable Final Terms then the provisions of this Condition 12 apply as modified by the applicable Final Terms.

(a) Redemption of Credit Linked Notes

Unless previously redeemed or purchased and cancelled and subject to Conditions to Settlement being satisfied during the Notice Delivery Period, each nominal amount of Notes equal to the lowest Specified Denomination set out in the applicable Final Terms will be redeemed by the Issuer at its Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

If Conditions to Settlement are satisfied during the Notice Delivery Period then (i) if Cash Settlement is specified in the applicable Final Terms, the provisions of Condition 12(b) shall apply or (ii) if Physical Delivery is specified in the applicable Final Terms, the provisions of Condition 12(c) shall apply.

(b) Cash Settlement

If Cash Settlement is specified in the applicable Final Terms and Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction, the "**Credit Event Determination Date**"), the Issuer shall give notice (such notice a "**Settlement Notice**") to the Noteholders in accordance with Condition 18 and redeem all but not some only of the Notes, each nominal amount of Notes equal to the lowest Specified Denomination set out in the applicable Final Terms being redeemed by the Issuer at the Credit Event Redemption Amount specified in, or determined in the manner specified in the applicable Final Terms in the relevant Specified Currency on the Credit Event Redemption Date.

If Conditions to Settlement are satisfied and the Notes become redeemable in accordance with this Condition 12(b), upon payment of the Credit Event Redemption Amounts in respect of the Notes the Issuer shall have discharged its obligations in respect of the Notes and shall have no other liability or obligation whatsoever in respect thereof. The Credit Event Redemption Amount may be less than the lowest Specified Denomination of a Note. Any shortfall shall be borne by the Noteholders and no liability shall attach to the Issuer.

(c) Physical Settlement

If Physical Delivery is specified in the applicable Final Terms and Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction, the "**Credit Event Determination Date**"), the Issuer shall give notice (such notice a "**Notice of Physical Settlement**") to the Noteholders in accordance with Condition 18 and redeem all but not some only of the Notes, each nominal amount of Notes equal to the lowest Specified Denomination set out in the applicable Final Terms being redeemed by the Issuer by Delivery of the Deliverable Obligations comprising the Asset Amount, subject to and in accordance with Conditions 12(g) and (h).

In the Notice of Physical Settlement, the Issuer shall specify the Deliverable Obligations comprising the Asset Amount that it reasonably expects to Deliver. For the avoidance of doubt, the Issuer shall be entitled to select any of the

Deliverable Obligations to constitute the Asset Amount, irrespective of their market value.

If "Restructuring Maturity Limitation and Fully Transferable Obligation" is specified as applying in the applicable Final Terms and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation may be included in the Asset Amount only if it (i) is a Fully Transferable Obligation and (ii) has a final maturity date not later than the Restructuring Maturity Limitation Date.

If "Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable" is specified as applying in the applicable Final Terms and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation may be included in the Asset Amount only if it (i) is a Conditionally Transferable Obligation and (ii) has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date.

If Conditions to Settlement are satisfied and the Notes become redeemable in accordance with this Condition 12(c), upon Delivery of the Deliverable Obligations Deliverable and/or payment of the Cash Settlement Amounts, as the case may be, the Issuer shall have discharged its obligations in respect of the Notes and shall have no other liability or obligation whatsoever in respect thereof. The value of such Deliverable Obligations and/or the Cash Settlement Amount may be less than the Specified Denomination of a Note. Any shortfall shall be borne by the Noteholders and no liability shall attach to the Issuer.

(d) Repudiation/Moratorium Extension

Where Repudiation/Moratorium is specified as a Credit Event in the applicable Final Terms, the provisions of this Condition 12(d) shall apply.

Where Conditions to Settlement have not been satisfied on or prior to the Scheduled Termination Date but the Repudiation/Moratorium Extension Condition has been satisfied on or prior to the Scheduled Termination Date or, if Condition 12(f)(y) applies, the Postponed Maturity Date and the Repudiation/Moratorium Evaluation Date in respect of such Potential Repudiation Moratorium will, in the sole determination of the Calculation Agent, fall after the Scheduled Termination Date, then the Calculation Agent shall notify the Noteholders in accordance with Condition 18 that a Potential Repudiation/Moratorium has occurred and:

(i) where a Repudiation/Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date:

(A) each nominal amount of Notes equal to the lowest Specified Denomination will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Repudiation/Moratorium Evaluation Date; and

(B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein, accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Repudiation/Moratorium Evaluation Date and no further or other amount in respect of

interest shall be payable and no additional amount shall be payable in respect of such delay; and

(ii) where a Repudiation/Moratorium has occurred on or prior to the Repudiation/ Moratorium Evaluation Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 12(b) or Condition 12(c), as applicable, shall apply to the Notes.

The Irish Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 12(d).

(e) Grace Period Extension

If "Grace Period Extension" is specified as applying in the applicable Final Terms, the provisions of this Condition 12(e) shall apply.

Where Conditions to Settlement have not been satisfied on or prior to the Scheduled Termination Date but a Potential Failure to Pay has occurred with respect to one or more Obligation(s) in respect of which a Grace Period is applicable on or prior to the Scheduled Termination Date (and such Grace Period(s) is/are continuing as at the Scheduled Termination Date), then:

(i) where a Failure to Pay has not occurred on or prior to the Grace Period Extension Date:

(A) each nominal amount of Notes equal to the lowest Specified Denomination will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Grace Period Extension Date; and

(B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein, accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Grace Period Extension Date and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; and

(ii) where a Failure to Pay has occurred on or prior to the Grace Period Extension Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 12(b) or Condition 12(c), as applicable, shall apply to the Notes.

The Irish Stock Exchange will be notified in respect of such postponement of the Maturity Date pursuant to this Condition 12(e).

(f) Maturity Date Extension

If:

(x) on (A) the Scheduled Termination Date or, (B), if applicable, the Repudiation/Moratorium Evaluation Date, or (C) if Grace Period Extension is specified as applying in the applicable Final Terms, the Grace Period Extension Date, as the case may be, Conditions to Settlement have not

been satisfied but, in the opinion of the Calculation Agent, a Credit Event may have occurred; or

(y) on the Scheduled Termination Date, in the opinion of the Calculation Agent a Potential Repudiation/Moratorium may have occurred,

the Calculation Agent may notify the Noteholders in accordance with Condition 18 that the Scheduled Maturity Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, has been postponed to a date (such date the "**Postponed Maturity Date**") specified in such notice falling 14 calendar days after the Scheduled Termination Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, and

where:

(i) in the case of Condition 12(f)(x), Conditions to Settlement are not satisfied on or prior to the Postponed Maturity Date or, in the case of Condition 12(f)(y), the Repudiation/Moratorium Extension Condition is not satisfied on or prior to the Postponed Maturity Date:

(A) subject as provided below, each nominal amount of Notes equal to the lowest Specified Denomination will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Postponed Maturity Date; and

(B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Postponed Maturity Date and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; or

(ii) where

(A) in the case of Condition 12(f)(x), Conditions to Settlement are satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 12(b) or 12(c) as applicable shall apply to the Notes; or

(B) in the case of Condition 12(f)(y), the Repudiation/Moratorium Extension Condition is satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 12(d) shall apply to the Notes.

The Irish Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 12(f).

(g) Physical Delivery

(i) If any Note is to be redeemed by delivery of the Asset Amount(s), in order to obtain delivery of such Asset Amount(s):

(A) if such Note is represented by a Global Note, the relevant Noteholder must deliver to Euroclear or Clearstream, Luxembourg (as applicable), with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice; and

(B) if such Note is in definitive form, the relevant Noteholder must deliver this Note to any Paying Agent with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, together with a duly completed Asset Transfer Notice.

Forms of the Asset Transfer Notice may be obtained during normal business hours from the specified office of any Paying Agent.

An Asset Transfer Notice may only be delivered (i) if such Note is represented by a Global Note, in such manner as is acceptable to Euroclear or Clearstream, Luxembourg, as the case may be, or (ii) if such Note is in definitive form, in writing or by authenticated SWIFT message.

If this Note is in definitive form, this Note must be delivered together with the duly completed Asset Transfer Notice.

An Asset Transfer Notice must:

(1) specify the name and address of the relevant Noteholder, the person from whom the Issuer may obtain details for the delivery of the Asset Amount and any details required for delivery of the Asset Amount set out in the applicable Final Terms;

(2) in the case of Notes represented by a Global Note, specify the nominal amount of Notes which are the subject of such notice and the number of the Noteholder's account at Euroclear or Clearstream, Luxembourg, as the case may be, to be debited with such Notes and irrevocably instruct and authorise Euroclear or Clearstream, Luxembourg, as the case may be, to debit the relevant Noteholder's account with such Notes on or before the Settlement Date;

(3) include an undertaking to pay all Delivery Expenses and, in the case of Notes represented by a Global Note, an authority to debit a specified account of the Noteholder at Euroclear or Clearstream, Luxembourg, as the case may be, in respect thereof and to pay such Delivery Expenses;

(4) specify an account to which any amounts payable pursuant to Condition 12(h) or any other cash amounts specified in the applicable Final Terms as being payable are to be paid; and

(5) authorise the production of such notice in any applicable administrative or legal proceedings.

No Asset Transfer Notice may be withdrawn after receipt thereof by Euroclear or Clearstream, Luxembourg or a Paying Agent, as the case may be, as provided above. After delivery of an Asset Transfer Notice, the relevant Noteholder may not transfer the Notes which are the subject of such notice.

In the case of Notes represented by a Global Note, upon receipt of such notice, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person specified therein as the Noteholder is the holder of the specified nominal amount of Notes according to its books.

Failure properly to complete and deliver an Asset Transfer Notice may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered as provided in these Terms and Conditions shall be made, in the case of Notes represented by a Global Note, by Euroclear or Clearstream, Luxembourg, as the case may be, after consultation with the Issuer and shall be conclusive and binding on the Issuer and the relevant Noteholder and, in the case of Notes in definitive form, by the relevant Paying Agent after consultation with the Issuer and shall be conclusive and binding on the Issuer and the relevant Noteholder.

Delivery of the Asset Amount(s) in respect of each Note shall be made at the risk of the relevant Noteholder in such commercially reasonable manner as the Calculation Agent shall in its sole discretion determine and notify to the person designated by the Noteholder in the relevant Asset Transfer Notice or in such manner as is specified in the applicable Final Terms.

If a Noteholder fails to give an Asset Transfer Notice as provided herein on or prior to the Cut-Off Date specified in the applicable Final Terms, the Issuer will, subject as provided above, deliver the Deliverable Obligations constituting the Asset Amount in respect of the relevant Notes as soon as practicable after the receipt of the duly completed Asset Transfer Notice, **Provided That** if, in respect of a Note, a Noteholder fails to give an Asset Transfer Notice prior to the day falling 180 calendar days after the Cut-Off Date, the obligations of the Issuer in respect of such Notes shall be discharged and the Issuer shall not have any liability in respect thereof.

(ii) All Delivery Expenses arising from the delivery of the Asset Amount in respect of any Notes shall be for the account of the relevant Noteholder and no delivery of any Asset Amount shall be made until all Delivery Expenses have been paid to the satisfaction of the Issuer by the relevant Noteholder.

After delivery of an Asset Amount in respect of a Note and for the Intervening Period, none of the Issuer, the Calculation Agent or any other person shall at any time (i) be under any obligation to deliver or procure delivery to any Noteholder any letter, certificate, notice, circular or any other document or, except as provided herein, payment whatsoever received by that person in respect of the securities or obligations included in such Asset Amount, (ii) be under any obligation to exercise or procure exercise of any or all rights attaching to such securities or obligations included in such Asset Amount or (iii) be under any liability to a Noteholder in respect of any loss or damage which such Noteholder may sustain or suffer as a result, whether directly or indirectly, of that person

being registered during such Intervening Period as legal owner of such securities or obligations included in such Asset Amount.

(iii) In relation to each Deliverable Obligation constituting any Asset Amount, the Issuer will Deliver or procure the Delivery of the relevant Deliverable Obligation as provided below on the Settlement Date **Provided That** if all or some of the Deliverable Obligations included in the Asset Amount in respect of a Note are Undeliverable Obligations and/or Hedge Disruption Obligations, then the Issuer shall continue to attempt to Deliver all or a portion of such Undeliverable Obligations or Hedge Disruption Obligations, as the case may be, on or before the 30th Business Day following the Settlement Date (the "**Final Delivery Date**"),

Provided Further That if all or a portion of such Undeliverable Obligations or Hedge Disruption Obligations, as the case may be, are not Delivered by the Final Delivery Date the provisions of Condition 12(h) shall apply.

(h) Partial Cash Settlement

If all or a portion of the Undeliverable Obligations or Hedge Disruption Obligations comprising the Asset Amount in respect of a Note are not Delivered by the Final Delivery Date, the Issuer shall give notice (a "**Cash Settlement Notice**") to the Noteholders in accordance with Condition 18 and the Issuer shall pay in respect of each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, the Cash Settlement Amount on the Cash Settlement Date.

In the Cash Settlement Notice, the Issuer must give details of why it is unable to deliver the relevant Undeliverable Obligations or Hedge Disruption Obligation, as the case may be.

Unless otherwise specified in the applicable Final Terms, for the purposes of this Condition 12(h) the following terms shall be defined as follows:

"**Cash Settlement Amount**" is deemed to be, for each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, an amount calculated by the Calculation Agent equal to the greater of (i) (A) the Outstanding Principal Balance, the Due and Payable Amount or the Currency Amount, as applicable, of each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, multiplied by (B) the Final Price with respect to such Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, less if applicable (C) Unwind Costs, if any (but excluding any Unwind Costs already taken into account in calculating the relevant Asset Amount), and (ii) zero.

"**Cash Settlement Date**" is deemed to be the date falling three Business Days after the calculation of the Final Price.

"**Indicative Quotation**" means, in accordance with the Quotation Method, each quotation obtained from a Quotation Dealer at the Valuation Time for (to the extent reasonably practicable) an amount of the Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, equal to the Quotation Amount, which reflects such Quotation Dealer's reasonable assessment of the price of such Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, based on such factors as such Quotation Dealer may consider relevant, which may include historical prices and recovery rates.

"**Market Value**" means, with respect to an Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, on a Valuation Date, (i) if more than three Full Quotations are obtained, the arithmetic mean of such Full Quotations, disregarding the Full Quotations having the same highest and lowest values (and, if more than one such Full Quotations have the same highest or lowest value, then one of such highest or lowest Full Quotations shall be disregarded); (ii) if exactly three Full Quotations are obtained, the Full Quotation remaining after disregarding the highest and lowest Full Quotations (and, if more than one such Full Quotations have the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded); (iii) if exactly two Full Quotations are obtained, the arithmetic mean of such Full Quotations; (iv) if fewer than two Full Quotations are obtained and a Weighted Average Quotation is obtained, such Weighted Average Quotation; (v) if Indicative Quotations are specified as applying in the applicable Final Terms and exactly three Indicative Quotations are obtained, the Indicative Quotation remaining after disregarding the highest and lowest Indicative Quotations (and, if more than one such Indicative Quotations have the same highest or lowest value, then one of such highest or lowest Indicative Quotations shall be disregarded); (vi) if fewer than two Full Quotations are obtained and no Weighted Average Quotation is obtained (and, if Indicative Quotations are applicable, fewer than three Indicative Quotations are obtained) then, subject to paragraph (ii) of the definition of "Quotation" below, an amount as determined by the Calculation Agent on the next Business Day on which at least two Full Quotations or a Weighted Average Quotation or, if applicable, three Indicative Quotations are obtained; and (vii) if the Quotations are deemed to be zero, the Market Value shall be zero.

"**Quotation**" means each Full Quotation, the Weighted Average Quotation and, if Indicative Quotations are specified as applying in the applicable Final Terms, each Indicative Quotation obtained and expressed as a percentage with respect to a Valuation Date in the manner that follows:

(i) The Calculation Agent shall attempt to obtain Full Quotations with respect to each Valuation Date from five or more Quotation Dealers. If the Calculation Agent is unable to obtain two or more such Full Quotations on the same Business Day within three Business Days of a Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the tenth Business Day following the relevant Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from five or more Quotation Dealers, and, if two or more Full Quotations are not available, a Weighted Average Quotation. If two or more such Full Quotations or a Weighted Average Quotation are not available on any such Business Day and Indicative Quotations are specified as applying in the applicable Final Terms, the Calculation Agent shall attempt to obtain three Indicative Quotations from five or more Quotation Dealers.

(ii) If the Calculation Agent is unable to obtain two or more Full Quotations or a Weighted Average Quotation (or, if Indicative Quotations are specified as applying in the applicable Final Terms, three Indicative Quotations) on the same Business Day on or prior to the tenth Business Day following the Valuation Date, the Quotations shall be deemed to be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day of, if no Full Quotation is obtained, the weighted average of any firm quotations (or, if applicable, Indicative Quotations) for the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be, obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation

Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations (or, if applicable, Indicative Quotations) were not obtained on such day.

(iii) The Calculation Agent shall determine, based on the then current market practice in the market of the relevant Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, whether such Quotations shall include or exclude accrued but unpaid interest. All Quotations shall be obtained in accordance with this specification or determination.

(iv) If any Quotation obtained with respect to an Accreting Obligation is expressed as a percentage of the amount payable in respect of such obligation at maturity, such Quotation will instead be expressed as a percentage of the Outstanding Principal Balance for purposes of determining the Final Price.

"**Quotation Amount**" is deemed to be, with respect to each type or issue of Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, an amount equal to the Outstanding Principal Balance or Due and Payable Amount (or, in either case, its equivalent in the relevant Obligation Currency converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained), as applicable, of such Undeliverable Obligation or Hedge Disruption Obligations, as the case may be.

"**Quotation Method**" is deemed to be Bid.

"**Reference Obligation**" is deemed to be each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be.

"**Valuation Method**" is deemed to be Highest unless fewer than two Full Quotations are obtained or a Weighted Average Quotation applies (or, if applicable, Indicative Quotations), in which case "**Valuation Method**" is deemed to be Market.

"**Valuation Time**" is the time specified as such in the applicable Final Terms, or, if no time is so specified, 11:00 a.m. in the principal trading market for the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be.

"**Weighted Average Quotation**" means, in accordance with the Quotation Method, the weighted average of firm quotations obtained from Quotation Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be, with an Outstanding Principal Balance of as large a size as available but less than the Quotation Amount that in aggregate are approximately equal to the Quotation Amount.

(i) Redemption following a Merger Event

If "Merger Event" is specified as applying in the applicable Final Terms, in the event that in the determination of the Calculation Agent a Merger Event has occurred, the Issuer may give notice to the Noteholders in accordance with Condition 18 and redeem each Note at the Early Redemption Amount on the Merger Event Redemption Date.

(j) Definitions applicable to Credit Linked Notes

"**Accreted Amount**" means, with respect to an Accreting Obligation, an amount equal to (a) the sum of (i) the original issue price of such obligation and (ii) the portion of the amount payable at maturity that has accreted in accordance with the terms of the obligation (or as otherwise described below), less (b) any cash payments made by the obligor thereunder that, under the terms of such obligation, reduce the amount payable at maturity (unless such cash payments have been accounted for in (a)(ii) above), in each case calculated as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Delivery Date or applicable Valuation Date, as the case may be. Such Accreted Amount shall include any accrued and unpaid periodic cash interest payments (as determined by the Calculation Agent in its sole and absolute discretion) only if "Include Accrued Interest" is specified as being applicable in the applicable Final Terms. If an Accreting Obligation is expressed to accrete pursuant to a straight-line method or if such Obligation's yield to maturity is not specified in, nor implied from, the terms of such Obligation, then, for the purposes of (a)(ii) above, the Accreted Amount shall be calculated using a rate equal to the yield to maturity of such Obligation. Such yield shall be determined on a semi-annual bond equivalent basis using the original issue price of such obligation and the amount payable at the scheduled maturity of such obligation, and shall be determined as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Delivery Date or applicable Valuation Date, as the case may be. The Accreted Amount shall exclude, in the case of an Exchangeable Obligation, any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"**Accreting Obligation**" means any obligation (including, without limitation, a Convertible Obligation or an Exchangeable Obligation), the terms of which expressly provide for an amount payable upon acceleration equal to the original issue price (whether or not equal to the face amount thereof) plus an additional amount or amounts (on account of original issue discount or other accruals of interest or principal not payable on a periodic basis) that will or may accrete, whether or not (a) payment of such additional amounts is subject to a contingency or determined by reference to a formula or index, or (b) periodic cash interest is also payable.

"**Affiliate**" means, in relation to any entity (the "**First Entity**"), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity. For these purposes "control" means ownership of a majority of the voting power of an entity.

"**Asset Amount**" means, in respect of each nominal amount of Notes equal to the lowest Specified Denomination, Deliverable Obligations, as selected by the Calculation Agent in its sole and absolute discretion, with:

(i) in the case of Deliverable Obligations that are Borrowed Money, an Outstanding Principal Balance (including accrued but unpaid interest (as determined by the Calculation Agent) if "Include Accrued Interest" is specified as applying in the applicable Final Terms, but excluding accrued but unpaid interest if "Exclude Accrued Interest" is specified as applying in the applicable Final Terms, and if neither "Include Accrued Interest" nor "Exclude Accrued Interest" is specified as applying in the applicable Final Terms, excluding accrued but unpaid interest); or

(ii) in the case of Deliverable Obligations that are not Borrowed Money, a Due and Payable Amount,

(or, in the case of either (i) or (ii), the equivalent Currency Amount of any such amount), in an aggregate amount as of the relevant Delivery Date equal to the lowest Specified Denomination less, if Unwind Costs are specified as applying in the applicable Final Terms, Deliverable Obligations with a market value determined by the Calculation Agent in its sole and absolute discretion on the Business Day selected by the Calculation Agent falling during the period from and including the Credit Event Determination Date to and including the Delivery Date equal to the Unwind Costs.

If an obligation by its terms represents or contemplates an obligation to pay an amount greater than the Outstanding Principal Balance of such obligation as of the Delivery Date as a result of the occurrence or non-occurrence of an event or circumstance, the Outstanding Principal Balance of such obligation shall not include any additional amount that would be payable upon the occurrence or non-occurrence of such event or circumstance.

"**Asset Transfer Notice**" means a duly completed asset transfer notice substantially in the form set out in the Agency Agreement.

"**Bankruptcy**" means a Reference Entity:

(a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);

(b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;

(c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;

(d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof or before the Scheduled Termination Date, whichever is earlier;

(e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);

(f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;

(g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not

dismissed, discharged, stayed or restrained, in each case within thirty calendar days thereafter or before the Scheduled Termination Date, whichever is earlier; or

(h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has any analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

"**Best Available Information**" means:

(i) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Calculation Agent makes its determination for the purposes of the definition of "Successor", other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or

(ii) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, or which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Calculation Agent to allow it to make a determination for the purposes of the definition of "Successor".

Information which is made available more than fourteen calendar days after the legally effective date of the Succession Event shall not constitute "Best Available Information".

"**Calculation Agent City Business Day**" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the Calculation Agent City specified in the applicable Final Terms.

"**Conditionally Transferable Obligation**" means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, provided, however, that a Deliverable Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Reference Entity or the guarantor, if any, of a Deliverable Obligation other than Bonds (or the consent of the relevant obligor if a Reference Entity is guaranteeing such Deliverable Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Deliverable Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition of "Conditionally Transferable Obligation".

For purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of Conditionally Transferable Obligation, such determination shall be made as of the Delivery Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Issuer.

"**Conditions to Settlement**" means the delivery by the Calculation Agent to the Issuer of a Credit Event Notice that is effective and if notice of Publicly Available Information is specified as applying in the applicable Final Terms, a Notice of Publicly Available Information, that is effective, in each case, during the Notice Delivery Period.

"**Convertible Obligation**" means any obligation that is convertible, in whole or in part, into Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

"**Credit Event**" means the occurrence of any one or more of the Credit Events specified in the applicable Final Terms which may include Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium or Restructuring, or any additional Credit Event specified in the applicable Final Terms, as determined by the Calculation Agent.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

(a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation;

(b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation, however described;

(c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or

(d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

"**Credit Event Notice**" means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Credit Event that occurred at or after 12.01 a.m. Greenwich Mean Time on the Trade Date and at or prior to 11.59 p.m., Greenwich Mean Time, on the latest of:

(a) the Scheduled Termination Date;

(b) where "Grace Period Extension" is specified as applying in the applicable Final Terms, the Grace Period Extension Date if (i) the Credit Event that is

the subject of the Credit Event Notice is a Failure to Pay that occurs after the Scheduled Termination Date; and (ii) the Potential Failure to Pay with respect to such Failure to Pay occurs at or prior to 11.59 p.m., Greenwich Mean Time, on the Scheduled Termination Date; and

(c) the Repudiation/Moratorium Evaluation Date if:

(i) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/ Moratorium that occurs after the Scheduled Termination Date;

(ii) the Potential Repudiation/Moratorium with respect to such Repudiation/ Moratorium occurs at or prior to 11.59 p.m., Greenwich Mean Time, on the Scheduled Termination Date; and

(iii) the Repudiation/Moratorium Extension Condition is satisfied.

A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. A Credit Event Notice shall be subject to the requirements regarding notices set out in Condition 18.

"**Credit Event Redemption Amount**" means the amount specified as such in the applicable Final Terms or if no such amount is specified in the applicable Final Terms, an amount calculated by the Calculation Agent equal to:

(A x B) – C

where:

"A" is the lowest Specified Denomination;

"B" is the Final Price; and

"C" is Unwind Costs,

provided that in no event shall the Credit Event Amount be less than zero.

"**Credit Event Redemption Date**" means the day falling the number of Business Days specified in the applicable Final Terms after the calculation of the Final Price.

"**Currency Amount**" means, whenever an amount is denominated in a currency other than the Settlement Currency and is specified to be determined by reference to a Currency Amount, such amount converted to the relevant Settlement Currency using the Currency Rate.

"**Currency Rate**" means:

(a) the rate determined by the Calculation Agent equal to the rate of conversion of the currency of the Deliverable Obligation into the Settlement Currency by reference to:

(i) if the Settlement Currency is U.S. Dollars, the Federal Reserve Bank of New York 10:00 a.m. (New York time) mid point rate as displayed on Reuters page FEDSPOT on the date that the Notice of

Physical Settlement is deemed given, or in such other commercially reasonable manner as it shall determine; or

(ii) if the Settlement Currency is euro, the MEAN price as displayed on Reuters Page EUROFX/1 as of 12:00 p.m. (London time) on the date that the Notice of Physical Settlement is deemed given, or in such other commercially reasonable manner as it shall determine; or

(b) if the Settlement Currency is not U.S. Dollars or euro, the rate determined by the Calculation Agent in its sole and absolute discretion in a commercially reasonable manner.

"**Default Requirement**" means the amount specified as such in the applicable Final Terms or its equivalent in the relevant Obligation Currency or, if a Default Requirement is not specified in the applicable Final Terms, USD10,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency, in either case, as of the occurrence of the relevant Credit Event.

"**Deliver**" means to deliver, novate, transfer (including, in the case of a Qualifying Guarantee, transfer of the benefit of the Qualifying Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of the applicable Deliverable Obligations (which shall include executing all necessary documentation and taking any other necessary actions), in order to convey all right, title and interest in the Asset Amount(s) to the relevant Noteholder free and clear of any and all liens, charges, claims or encumbrances (including without limitation any counterclaim, defence (other than a counterclaim or defence based on the factors set out in (a) to (d) in the definition of "Credit Event" above or right of set-off by or of the Reference Entity or, as applicable, an Underlying Obligor) provided that if all or a portion of an Asset Amount consists of Direct Loan Participations, "**Deliver**" means to create (or procure the creation) of a participation in favour of the relevant Noteholder and to the extent that the Deliverable Obligations consist of Qualifying Guarantees, "**Deliver**" means to Deliver both the Qualifying Guarantee and the Underlying Obligation. "**Delivery**" and "**Delivered**" will be construed accordingly. In the case of a Loan, Delivery shall be effected using documentation substantially in the form of the documentation customarily used in the relevant market for Delivery of such Loan at that time.

"**Deliverable Obligation**" means, subject as provided in Condition 12(c):

(a) any obligation of a Reference Entity (either directly, as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) determined pursuant to the method described in "(A) Method for Determining Deliverable Obligations" below (but excluding any Excluded Deliverable Obligation specified in the applicable Final Terms) that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of "Credit Event" above)) or right of set off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Delivery Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being Delivered

apart from the giving of any notice of non-payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement;

(b) subject to the second paragraph of the definition of "Not Contingent" in "(A) Method for Determining Deliverable Obligations" below, each Reference Obligation, unless specified in the applicable Final Terms as an Excluded Deliverable Obligation;

(c) solely in relation to a Restructuring Credit Event applicable to a Sovereign Reference Entity, any Sovereign Restructured Deliverable Obligation (but excluding any Excluded Deliverable Obligation) that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a)-(d) of the definition of "Credit Event" above) or right of set-off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Delivery Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being Delivered apart from the giving of any notice of non-payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement; and

(d) any Additional Deliverable Obligation of a Reference Entity specified as such in the applicable Final Terms.

(A) Method for Determining Deliverable Obligations. For the purposes of this definition of "Deliverable Obligation", the term "Deliverable Obligation" may be defined as each obligation of each Reference Entity described by the Deliverable Obligation Category specified in the applicable Final Terms, and, subject to (B)(3) below, having each of the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms, in each case, as of the Delivery Date. The following terms shall have the following meanings:

(1) "**Deliverable Obligation Category**" means one of Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan (each as defined in the definition of "Obligation" below, except that, for the purpose of determining Deliverable Obligations, the definition of "Reference Obligations Only" shall be amended to state that no Deliverable Obligation Characteristics shall be applicable to Reference Obligations Only).

(2) "**Deliverable Obligation Characteristics**" means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed, Not Domestic Issuance (each as defined in the definition of "Obligation" below), Not Contingent, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer where:

(i) "**Not Contingent**" means any obligation having as of the Delivery Date and all times thereafter an Outstanding Principal Balance or, in the case of obligations that are not Borrowed Money, a Due and Payable Amount, that pursuant to the terms of such obligation may not be reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall constitute Deliverable Obligations that are Not Contingent if such Deliverable Obligation otherwise meets the requirements of the preceding sentence so long as, in the case of a Convertible Obligation or an Exchangeable Obligation, the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Delivery Date.

If a Reference Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Reference Obligation may be included as a Deliverable Obligation only if the rights referred to in clauses (A) and (B) of paragraph (i) above have not been exercised (or such exercise has been effectively rescinded) on or before the Delivery Date.

(ii) "**Assignable Loan**" means a Loan that is capable of being assigned or novated to, at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of organisation) that are not then a lender or a member of the relevant lending syndicate, without the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if a Reference Entity is guaranteeing such Loan) or any agent;

(iii) "**Consent Required Loan**" means a Loan that is capable of being assigned or novated with the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if a Reference Entity is guaranteeing such loan) or any agent;

(iv) "**Direct Loan Participation**" means a Loan in respect of which, pursuant to a participation agreement, the Issuer is capable of creating, or procuring the creation of, a contractual right in favour of each Noteholder that provides each Noteholder with recourse to the participation seller for a specified share in any payments due under the relevant Loan which are received by such

participation seller, any such agreement to be entered into between each Noteholder and either (A) the Issuer (to the extent that the Issuer is then a lender or a member of the relevant lending syndicate), or (B) a Qualifying Participation Seller (if any) (to the extent such Qualifying Participation Seller is then a lender or a member of the relevant lending syndicate);

(v) "**Transferable**" means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction, provided that none of the following shall be considered contractual, statutory or regulatory restrictions:

(a) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation); or

(b) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds;

(vi) "**Maximum Maturity**" means an obligation that has a remaining maturity from the Settlement Date of not greater than the period specified in the applicable Final Terms;

(vii) "**Accelerated or Matured**" means an obligation under which the total amount owed, whether at maturity, by reason of acceleration, upon termination or otherwise (other than amounts in respect of default interest, indemnities, tax gross-ups and other similar amounts), is, or on or prior to the Delivery Date will be, due and payable in full in accordance with the terms of such obligation, or would have been but for, and without regard to, any limitation imposed under any applicable insolvency laws; and

(viii) "**Not Bearer**" means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via Euroclear, Clearstream, Luxembourg or any other internationally recognised clearing system.

(B) Interpretation of Provisions.

(1) If the Obligation Characteristic "Listed" is specified in the applicable Final Terms, the Final Terms shall be construed

as though Listed had been specified as an Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Obligation Category;

(2) if (i) either of the Deliverable Obligation Characteristics "Listed" or "Not Bearer" is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Deliverable Obligation Category; (ii) the Deliverable Obligation Characteristic "Transferable" is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Deliverable Obligations that are not Loans (and shall only be relevant to the extent that obligations other than Loans are covered by the selected Deliverable Obligation Category); or (iii) any of the Deliverable Obligation Characteristics "Assignable Loan", "Consent Required Loan" or "Direct Loan Participation" is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Loans and shall only be relevant if Loans are covered by the selected Deliverable Obligation Category;

(3) if any of Payment, Borrowed Money, Loan or Bond or Loan is specified as the Deliverable Obligation Category and more than one of Assignable Loan, Consent Required Loan and Direct Loan Participation are specified as Deliverable Obligation Characteristics, the Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics specified and need not satisfy all such Deliverable Obligation Characteristics; and

(4) in the event that an Obligation or a Deliverable Obligation is a Qualifying Guarantee, the following will apply:

(i) For purposes of the application of the Obligation Category or the Deliverable Obligation Category, the Qualifying Guarantee shall be deemed to be described by the same category or categories as those that describe the Underlying Obligation.

(ii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Specified Currency, Not Sovereign Lender, Not Domestic Currency and Not Domestic Law. For these purposes,

unless otherwise specified in the applicable Final Terms, (A) the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro shall not be a Domestic Currency and (B) the laws of England and the laws of the State of New York shall not be a Domestic Law.

(iii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Qualifying Guarantee must satisfy on the relevant date the Obligation Characteristic or the Deliverable Obligation Characteristic of Not Subordinated, if specified in the applicable Final Terms.

(iv) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Listed, Not Contingent, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer.

(v) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to refer to the Underlying Obligor.

(vi) The terms "Outstanding Principal Balance" and "Due and Payable Amount" (as they are used in these Terms and Conditions, including without limitation, the definitions of "Cash Settlement Amount" and "Quotation Amount" in Condition 12(h)), when used in connection with Qualifying Guarantees are to be interpreted to be the then "Outstanding Principal Balance" or "Due and Payable Amount", as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee.

For the avoidance of doubt the provisions of this paragraph (B) apply in respect of the definitions of Obligation and Deliverable Obligation as the context admits.

"**Delivery Date**" means, with respect to a Deliverable Obligation, the date such Deliverable Obligation is Delivered.

"**Delivery Expenses**" means all costs, taxes, duties and/or expenses, including stamp duty, stamp duty reserve tax and/or other costs, duties or taxes arising from the Delivery of the Asset Amount.

"**Domestic Currency**" means the currency specified as such in the applicable Final Terms and any successor currency. If no currency is specified in the applicable Final Terms, the Domestic Currency shall be the lawful currency and any successor currency of (a) the relevant Reference Entity, if the Reference Entity is a Sovereign, or (b) the jurisdiction in which the relevant Reference Entity is organised, if the Reference Entity is not a Sovereign. In no event shall Domestic Currency include any successor currency if such successor currency is the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro (or any successor currency to any such currency).

"**Downstream Affiliate**" means an entity, at the date of the event giving rise to the Credit Event which is the subject of the Credit Event Notice, the Delivery Date or the time of identification of a Substitute Reference Obligation (as applicable), whose outstanding Voting Shares are more than 50 per cent. owned, directly or indirectly, by the Reference Entity. "**Voting Shares**" shall mean those shares or other interests that have the power to elect the board of directors or similar governing body of an entity.

"**Due and Payable Amount**" means, subject as provided in sub-paragraph (4)(vi) of paragraph (B) (Interpretation of Provisions) in the definition of Deliverable Obligation, the amount that is due and payable under (and in accordance with the terms of) a Deliverable Obligation on the Delivery Date, whether by reason of acceleration, maturity, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts).

"**Eligible Transferee**" means each of the following:

(a) (i) any bank or other financial institution;

(ii) an insurance or reinsurance company;

(iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in sub-paragraph (c)(i) below); and

(ix) a registered or licensed broker or dealer (other than a natural person or proprietorship),

provided, however, in each case that such entity has total assets or at least U.S.$500 million;

(b) an Affiliate of an entity specified in the preceding sub-paragraph (a);

(c) each of a corporation, partnership, proprietorship, organisation, trust or other entity:

(i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (1) has total assets of at least U.S.$100 million or (2) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least U.S.$100 million; or

(ii) that has total assets of at least U.S.$500 million; or

(iii) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in sub-paragraphs (a), (b), (c)(ii) or (d); and

(d) a Sovereign, Sovereign Agency or Supranational Organisation.

All references in this definition to U.S.$ include equivalent amounts in other currencies.

"**Equity Securities**" means:

(a) in the case of a Convertible Obligation, equity securities (including options and warrants) of the issuer of such obligation or depositary receipts representing equity securities of the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time; and

(b) in the case of an Exchangeable Obligation, equity securities (including options and warrants) of a person other than the issuer of such obligation or depositary receipts representing those equity securities of a person other than the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time.

"**Exchangeable Obligation**" means any obligation that is exchangeable, in whole or in part, for Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

"**Excluded Deliverable Obligation**" means any obligation of a Reference Entity specified as such or of a type described in the applicable Final Terms.

"**Excluded Obligation**" means any obligation of a Reference Entity specified as such or of a type described in the applicable Final Terms.

"**Failure to Pay**" means after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure.

"**Final Delivery Date**" is as defined in Condition 12(g).

"**Final Price**" means the price of the relevant Reference Obligation(s), as the case may be, expressed as a percentage, determined in accordance with the Valuation Method specified in the applicable Final Terms or, where applicable, Condition 12(k). The Calculation Agent shall as soon as practicable after obtaining all Quotations for a Valuation Date, make available for inspection by Noteholders at the specified office of the Principal Paying Agent (i) each such Quotation that it receives in connection with the calculation of the Final Price and (ii) a written computation showing its calculation of the Final Price.

"**Full Quotation**" means, in accordance with the Quotation Method each firm quotation obtained from a Quotation Dealer at the Valuation Time, to the extent reasonably practicable, for an amount of the Reference Obligation with an Outstanding Principal Balance equal to the Quotation Amount.

"**Fully Transferable Obligation**" means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required in the case of any Deliverable Obligation other than Bonds. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered as a requirement for consent for purposes of this definition of "Fully Transferable Obligation". For purposes of determining whether a Deliverable Obligation satisfies the requirements of this definition of "Fully Transferable Obligation", such determination shall be made as of the Delivery Date for the relevant Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Issuer.

"**Governmental Authority**" means any de facto or de jure government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Reference Entity or of the jurisdiction of organisation of a Reference Entity.

"**Grace Period**" means:

(a) subject to paragraphs (b) and (c) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred;

(b) if Grace Period Extension is specified as applying in the applicable Final Terms, a Potential Failure to Pay has occurred on or prior to the Scheduled Termination Date and the applicable grace period cannot, by its terms, expire on or prior to the Scheduled Termination Date, the Grace Period shall be deemed to be the lesser of such grace period and the period specified as such in the applicable Final Terms or, if no period is specified in the applicable Final Terms, thirty calendar days; and

(c) if, at the later of the Trade Date and the date as of which an Obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation; provided that, unless Grace Period Extension is specified as applying in the applicable Final Terms, such deemed Grace Period shall expire no later than the Scheduled Termination Date.

"**Grace Period Business Day**" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation and if a place or places are not so specified, in the jurisdiction of the Obligation Currency.

"**Grace Period Extension Date**" means, if:

(a) Grace Period Extension is specified as applying in the applicable Final Terms; and

(b) a Potential Failure to Pay occurs on or prior to the Scheduled Termination Date, the day falling the number of days in the Grace Period after the date of such Potential Failure to Pay.

"**Hedge Disruption Event**" means in the opinion of the Calculation Agent any event as a result of which the Issuer has not received the relevant Deliverable Obligations under the terms of any related Swap Agreement or other transaction entered into by the Issuer to hedge the obligations or position of the Issuer in respect of the Notes.

"**Hedge Disruption Obligation**" means a Deliverable Obligation included in the Asset Amount which, on the Settlement Date for such Deliverable Obligation, the Calculation Agent determines cannot be Delivered as a result of a Hedge Disruption Event.

"**Intervening Period**" means such period of time as any person other than the relevant Noteholder shall continue to be registered as the legal owner of any securities or other obligations comprising the Asset Amount.

"**Market Value**" means, with respect to a Reference Obligation on a Valuation Date:

(a) if more than three Full Quotations are obtained, the arithmetic mean of such Full Quotations, disregarding the Full Quotations having the highest and lowest values (and, if more than one such Full Quotations have the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);

(b) if exactly three Full Quotations are obtained, the Full Quotation remaining after disregarding the highest and lowest Full Quotations (and, if more than one such Full Quotations have the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);

(c) if exactly two Full Quotations are obtained, the arithmetic mean of such Full Quotations;

(d) if fewer than two Full Quotations and a Weighted Average Quotation is obtained, such Weighted Average Quotation;

(e) if fewer than two Full Quotations are obtained and no Weighted Average Quotation is obtained, subject as provided in the definition of Quotation, an amount as determined by the Calculation Agent on the next Business Day on which two or more Full Quotations or a Weighted Average Quotation is obtained; and

(f) if two or more Full Quotations or a Weighed Average Quotation are not obtained on or prior to the tenth Business Day following the applicable Valuation Date the Market Value shall be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day, or if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the

Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day.

"**Merger Event**" means that at any time during the period from (and including) the Trade Date to (but excluding) the Scheduled Termination Date the Issuer or a Reference Entity consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, a Reference Entity or the Issuer, as applicable, or the Issuer and a Reference Entity become Affiliates.

"**Minimum Quotation Amount**" means the amount specified as such in the applicable Final Terms (or its equivalent in the relevant Obligation Currency) or, if no amount is so specified, the lower of (a) USD1,000,000 (or its equivalent in the relevant Obligation Currency) and (b) the Quotation Amount.

"**Modified Eligible Transferee**" means any bank, financial institution or other entity which is regularly engaged in and established for the purpose of making, purchasing or investing in loans, securities and other financial assets.

"**Modified Restructuring Maturity Limitation Date**" means, with respect to a Deliverable Obligation, the date that is the later of (x) the Scheduled Maturity Date and (y) 60 months following the Restructuring Date in the case of a Restructured Bond or Loan, or 30 months following the Restructuring Date in the case of all other Deliverable Obligations.

"**Notice Delivery Period**" means the period from and including the Trade Date to and including (a) the Scheduled Termination Date; (b) the Grace Period Extension Date if (i) "Grace Period Extension" is specified as applying in the applicable Final Terms, (ii) the Credit Event that is the subject of the Credit Event Notice is a Failure to Pay that occurs after the Scheduled Termination Date, and (iii) the Potential Failure to Pay with respect to such Failure to Pay occurs on or prior to the Scheduled Termination Date; (c) the Repudiation/Moratorium Evaluation Date if (i) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/Moratorium that occurs after the Scheduled Termination Date, (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date and (iii) the Repudiation/Moratorium Extension Condition is satisfied; or (d) the Postponed Maturity Date if the Maturity Date is postponed pursuant to Condition 12(k).

"**Notice of Publicly Available Information**" means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that cites Publicly Available Information confirming the occurrence of the Credit Event or Potential Repudiation/Moratorium, as applicable, described in the Credit Event Notice or Repudiation/Moratorium Extension Notice. In relation to a Repudiation/Moratorium Credit Event, the Notice of Publicly Available Information must cite Publicly Available Information confirming the occurrence of both clauses (i) and (ii) of the definition of Repudiation/Moratorium. The notice given must contain a copy or description in reasonable detail, of the relevant Publicly Available Information. If Notice of Publicly Available Information is specified as applying in the applicable Final Terms and a Credit Event Notice or Repudiation/Moratorium Extension Notice, as applicable, contains Publicly Available Information, such Credit Event Notice or Repudiation/Moratorium Extension Notice will also be deemed to be a Notice of Publicly Available

Information. A Notice of Publicly Available Information shall be subject to the requirements regarding notices in Condition 12(k).

"**Obligation**" means:

(a) any obligation of a Reference Entity (either directly, as a provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) determined pursuant to the method described in "Method for Determining Obligations" below (but excluding any Excluded Obligation);

(b) each Reference Obligation specified in the applicable Final Terms, unless specified as an Excluded Obligation; and

(c) any Additional Obligation of a Reference Entity specified as such in the applicable Final Terms.

Method for Determining Obligations. For the purposes of paragraph (a) of this definition of "Obligation", the term "Obligation" may be defined as each obligation of each Reference Entity described by the Obligation Category specified in the applicable Final Terms, and having each of the Obligation Characteristics (if any) specified in the applicable Final Terms, in each case, as of the date of the event which constitutes the Credit Event which is the subject of the Credit Event Notice. The following terms shall have the following meanings:

(A) "**Obligation Category**" means Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, only one of which shall be specified in the applicable Final Terms, where:

(1) "**Payment**" means any obligation (whether present or future, contingent or otherwise) for the payment or repayment of money, including, without limitation, Borrowed Money;

(2) "**Borrowed Money**" means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding unpaid drawings in respect of principal) for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit);

(3) "**Reference Obligations Only**" means any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligations Only;

(4) "**Bond**" means any obligation of a type included in the "Borrowed Money" Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money;

(5) "**Loan**" means any obligation of a type included in the "Borrowed Money" Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money; and

(6) "**Bond or Loan**" means any obligation that is either a Bond or a Loan.

(B) "**Obligation Characteristics**" means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed and Not Domestic Issuance specified in the applicable Final Terms, where:

(1) (a) "**Not Subordinated**" means an obligation that is not Subordinated to the most senior Reference Obligation in priority of payment or, if no Reference Obligation is specified in the applicable Final Terms, any unsubordinated Borrowed Money obligation of the Reference Entity. For purposes of determining whether an obligation satisfies the "Not Subordinated" Obligation. Characteristic or Deliverable Obligation Characteristic, the ranking in priority of payment of each Reference Obligation shall be determined as of the later of (1) the Trade Date specified in the applicable Final Terms and (2) the date on which such Reference Obligation was issued or incurred and shall not reflect any change to such ranking in priority of payment after such later date;

(b) "**Subordination**" means, with respect to an obligation (the "**Subordinated Obligation**") and another obligation of the Reference Entity to which such obligation is being compared (the "**Senior Obligation**"), a contractual, trust or other similar arrangement providing that (i) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. "**Subordinated**" will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account where the Reference Entity is a Sovereign;

(2) "**Specified Currency**" means an obligation that is payable in the currency or currencies specified as such in the applicable Final Terms (or, if Specified Currency is specified in the applicable Final Terms and no currency is so specified, any of the lawful currencies of Canada, Japan, Switzerland, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies, which currencies shall be referred to collectively in the applicable Final Terms as the "**Standard Specified Currencies**");

(3) "**Not Sovereign Lender**" means any obligation that is not primarily owed to a Sovereign or Supranational Organisation, including, without limitation, obligations generally referred to as "Paris Club debt";

(4) "**Not Domestic Currency**" means any obligation that is payable in any currency other than the Domestic Currency;

(5) "**Not Domestic Law**" means any obligation that is not governed by the laws of (a) the relevant Reference Entity, if such Reference Entity is a Sovereign, or (b) the jurisdiction of organisation of the relevant Reference Entity, if such Reference Entity is not a Sovereign;

(6) "**Listed**" means an obligation that is quoted, listed or ordinarily purchased and sold on an exchange; and

(7) "**Not Domestic Issuance**" means any obligation other than an obligation that was, at the time the relevant obligation was issued (or reissued, as the case may be) or incurred, intended to be offered for sale primarily in the domestic market of the relevant Reference Entity. Any obligation that is registered or qualified for sale outside the domestic market of the relevant Reference Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the relevant Reference Entity) shall be deemed not to be intended for sale primarily in the domestic market of the Reference Entity.

"**Obligation Acceleration**" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

"**Obligation Currency**" means the currency or currencies in which the Obligation is denominated.

"**Obligation Default**" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become capable of being declared due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default, or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

"**Outstanding Principal Balance**" means, subject as provided in sub-paragraph (4)(vi) of paragraph (B) (Interpretation of Provisions) in the definition of Deliverable Obligation:

(a) with respect to any Accreting Obligation, the Accreted Amount thereof; and

(b) with respect to any other obligation, the outstanding principal balance of such obligation,

Provided That with respect to any Exchangeable Obligation that is not an Accreting Obligation, "**Outstanding Principal Balance**" shall exclude any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"**Payment Requirement**" means the amount specified as such in the applicable Final Terms or its equivalent in the relevant Obligation Currency or, if a Payment Requirement is not specified in the applicable Final Terms, USD1,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency, in either case, as of the occurrence of the relevant Failure to Pay or Potential Failure to Pay, as applicable.

"**Permitted Currency**" means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership), or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Co-operation and Development and has a local currency long term debt rating of either AAA or higher assigned to it by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody's Investors Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the rating business thereof.

"**Physical Settlement Period**" means the number of Business Days specified as such in the applicable Final Terms or, if a number of Business Days is not so specified, then, with respect to a Deliverable Obligation comprising the Asset Amount, the longest number of Business Days for settlement in accordance with then current market practice of such Deliverable Obligation, as determined by the Calculation Agent.

"**Potential Failure to Pay**" means the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations, in accordance with the terms of such Obligations at the time of such failure.

"**Potential Repudiation/Moratorium**" means the occurrence of an event described in paragraph (i) of the definition of Repudiation/Moratorium.

"**Publicly Available Information**" means:

(a) information that reasonably confirms any of the facts relevant to the determination that the Credit Event or a Potential Repudiation/Moratorium, as applicable, described in a Credit Event Notice or Repudiation/Moratorium Extension Notice has occurred and which:

(i) has been published in or not less than the Specified Number of Public Sources, regardless of whether the reader or user thereof pays a fee to obtain such information provided that, if either the Calculation Agent or the Issuer is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless either the Calculation Agent or the Issuer is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation;

(ii) is information received from or published by (A) a Reference Entity or, as the case may be, a Sovereign Agency in respect of a Reference Entity which is a Sovereign or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation; or

(iii) is information contained in any petition or filing instituting a proceeding described in paragraph (d) of the definition of Bankruptcy against or by a Reference Entity; or

(iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

(b) In the event that the Calculation Agent is (i) the sole source of information in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation and (ii) a holder of the Obligation with respect to which a Credit Event has occurred, the Calculation Agent shall be required to deliver to the Issuer a certificate signed by a Managing Director (or other substantially equivalent title) of the Calculation Agent, which shall certify the occurrence of a Credit Event with respect to a Reference Entity.

(c) In relation to any information of the type described in paragraphs (a) (ii), (iii) and (iv) above, the Calculation Agent may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the entity disclosing such information has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to third parties.

(d) Publicly Available Information need not state:

(i) in relation to the definition of "Downstream Affiliate", the percentage of Voting Shares owned, directly or indirectly, by the Reference Entity; and

(ii) that such occurrence:

(A) has met the Payment Requirement or Default Requirement;

(B) is the result of exceeding any applicable Grace Period; or

(C) has met the subjective criteria specified in certain Credit Events.

"**Public Source**" means each source of Publicly Available Information specified as such in the applicable Final Terms (or if a source is not specified in the applicable Final Terms, each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos and The Australian Financial Review (and successor publications), the main source(s) of business news in the country in which the Reference Entity is organised and any other internationally recognised published or electronically displayed news sources).

"**Qualifying Affiliate Guarantee**" means a Qualifying Guarantee provided by a Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of that Reference Entity.

"**Qualifying Guarantee**" means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the "**Underlying Obligation**") for which another party is the obligor (the "**Underlying Obligor**") and that is not at the time of the Credit Event Subordinated to any unsubordinated Borrowed Money obligation of the Underlying Obligor (with references in the definition of Subordination to the Reference Entity deemed to refer to the Underlying Obligor). Qualifying Guarantees shall exclude any arrangement structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement. The benefit of a Qualifying Guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation.

"**Qualifying Participation Seller**" means any participation seller that meets the requirements specified in the applicable Final Terms. If no such requirements are specified, there shall be no Qualifying Participation Seller.

"**Quotation**" means each Full Quotation and the Weighted Average Quotation obtained and expressed as a percentage with respect to a Valuation Date in the manner that follows:

(a) The Calculation Agent shall attempt to obtain Full Quotations with respect to each Valuation Date from five or more Quotation Dealers. If the Calculation Agent is unable to obtain two or more such Full Quotations on the same Business Day within three Business Days of a Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the tenth Business Day following the relevant Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from five or more Quotation Dealers and, if two or more Full Quotations are not available, a Weighted Average Quotation. If the Calculation Agent is unable to obtain two or more Full Quotations or a Weighted Average Quotation on the same Business Day on or prior to the tenth Business Day following the applicable Valuation Date the Quotations shall be deemed to be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day, or if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day.

(b) (i) If "Include Accrued Interest" is specified in the applicable Final Terms in respect of Quotations, such Quotations shall include accrued but unpaid interest;

(ii) if "Exclude Accrued Interest" is specified in the applicable Final Terms in respect of Quotations, such Quotations shall not include accrued but unpaid interest; and

(iii) if neither "Include Accrued Interest" nor "Exclude Accrued Interest" is specified in the applicable Final Terms in respect of Quotations, the Calculation Agent shall determine based on then current market

practice in the market of the Reference Obligation, whether such Quotations shall include or exclude accrued but unpaid interest. All Quotations shall be obtained in accordance with this specification or determination.

(c) If any Quotation obtained with respect to an Accreting Obligation is expressed as a percentage of the amount payable in respect of such obligation at maturity, such Quotation will instead be expressed as a percentage of the Outstanding Principal Balance for the purposes of determining the Final Price.

"**Quotation Amount**" means the amount specified as such in the applicable Final Terms (which may be specified by reference to an amount in a currency or by reference to a Representative Amount) or, if no amount is specified in the applicable Final Terms, the Aggregate Nominal Amount (or, in either case, its equivalent in the relevant Obligation Currency converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained).

"**Quotation Dealer**" means a dealer in obligations of the type of Obligation(s) for which Quotations are to be obtained including each Quotation Dealer specified in the applicable Final Terms. If no Quotation Dealers are specified in the applicable Final Terms, the Calculation Agent shall select the Quotation Dealers in its sole and absolute discretion. Upon a Quotation Dealer no longer being in existence (with no successors), or not being an active dealer in the obligations of the type for which Quotations are to be obtained, the Calculation Agent may substitute any other Quotation Dealer(s) for such Quotation Dealer(s).

"**Quotation Method**" means the applicable Quotation Method specified in the applicable Final Terms by reference to one of the following terms:

(a) "**Bid**" means that only bid quotations shall be requested from Quotation Dealers;

(b) "**Offer**" means that only offer quotations shall be requested from Quotation Dealers; or

(c) "**Mid-market**" means that bid and offer quotations shall be requested from Quotation Dealers and shall be averaged for purposes of determining a relevant Quotation Dealer's quotation.

If a Quotation Method is not specified in the applicable Final Terms, Bid shall apply.

"**Reference Entity**" means the entity or entities specified as such in the applicable Final Terms. Any Successor to a Reference Entity identified pursuant to the definition of "Successor" in this Condition 12(j) shall be the Reference Entity for the purposes of the relevant Series.

"**Reference Obligation**" means each obligation specified or of a type described as such in the applicable Final Terms (if any are so specified or described) and any Substitute Reference Obligation.

"**Relevant Obligations**" means the Obligations constituting Bonds and Loans of the Reference Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Reference Entity and any of its Affiliates, as determined by the Calculation Agent.

The Calculation Agent will determine the entity which succeeds to such Relevant Obligations on the basis of the Best Available Information. If the date on which the Best Available Information becomes available or is filed precedes the legally effective date of the relevant Succession Event, any assumptions as to the allocation of obligations between or among entities contained in the Best Available Information will be deemed to have been fulfilled as of the legally effective date of the Succession Event, whether or not this is in fact the case.

"**Representative Amount**" means an amount that is representative for a single transaction in the relevant market and at the relevant time, such amount to be determined by the Calculation Agent.

"**Repudiation/Moratorium**" means the occurrence of both of the following events:

(i) an authorised officer of a Reference Entity or a Governmental Authority:

(x) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement; or

(y) declares or imposes a moratorium, standstill, roll-over or deferral, whether de facto or de jure, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement; and

(ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring, determined without regard to the Default Requirement, with respect to any such Obligation occurs on or prior to the Repudiation/Moratorium Evaluation Date.

"**Repudiation/Moratorium Evaluation Date**" means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date, (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (B) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium.

"**Repudiation/Moratorium Extension Condition**" means the delivery of a Repudiation/Moratorium Extension Notice and, if specified as applicable in the applicable Final Terms, Notice of Publicly Available Information by the Calculation Agent to the Issuer that is effective during the period from and including the Trade Date to and including the Scheduled Termination Date or, if Condition 12(f)(y) applies, the Postponed Maturity Date.

"**Repudiation/Moratorium Extension Notice**" means an irrevocable notice (which may be by telephone) from the Calculation Agent to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Potential Repudiation/Moratorium that occurred on or after the Trade Date and on or prior to the Scheduled Termination Date. A Repudiation/Moratorium Extension Notice must contain a description in reasonable detail of the facts relevant to the determination that a Potential Repudiation/Moratorium has occurred and indicate the date of the occurrence. The Potential Repudiation/Moratorium that is the

subject of the Repudiation/Moratorium Extension Notice need not be continuing on the date the Repudiation/Moratorium Extension Notice is effective.

"**Restructuring**" means, with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between a Reference Entity or a Governmental Authority and a sufficient number of holders of the Obligation to bind all the holders of such Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred:

(i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;

(ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;

(iii) a postponement or other deferral of a date or dates for either (i) the payment or accrual of interest or (ii) the payment of principal or premium;

(iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation; or

(v) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency.

Notwithstanding the above provisions, none of the following shall constitute a Restructuring:

(a) the payment in euro of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(b) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and

(c) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity.

For purposes of the definition of Restructuring and Condition 10(l), the term "Obligation" shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to the Reference Entity in the definition of Restructuring and the definition of Subordination shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in the second

paragraph of this definition of Restructuring shall continue to refer to the Reference Entity.

"**Restructured Bond or Loan**" means an Obligation which is a Bond or Loan and in respect of which the Restructuring that is the subject of a Credit Event Notice has occurred.

"**Restructuring Date**" means, with respect to a Restructured Bond or Loan, the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring.

"**Restructuring Maturity Limitation Date**" means the date that is the earlier of (x) thirty months following the Restructuring Date and (y) the latest final maturity date of any Restructured Bond or Loan, provided, however, that under no circumstances shall the Restructuring Maturity Limitation Date be earlier than the Scheduled Termination Date or later than thirty months following the Scheduled Termination Date and if it is, it shall be deemed to be the Scheduled Termination Date or thirty months following the Scheduled Termination Date, as the case may be.

"**Settlement Currency**" means the currency specified as such in the applicable Final Terms, or if no currency is specified in the applicable Final Terms, the Specified Currency of the Notes.

"**Settlement Date**" means the last day of the longest Physical Settlement Period following the satisfaction of Conditions to Settlement (the "**Scheduled Settlement Date**") **Provided That** if a Hedge Disruption Event has occurred and is continuing on the second Business Day immediately preceding the Scheduled Settlement Date, the Settlement Date shall be the earlier of (i) the second Business Day following the date on which no Hedge Disruption Event subsists and (ii) the day falling 60 Business Days following the Scheduled Settlement Date.

"**Sovereign**" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including without limiting the foregoing, the central bank) thereof.

"**Sovereign Agency**" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign.

"**Sovereign Restructured Deliverable Obligation**" means an Obligation of a Sovereign Reference Entity (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred and (b) described by the Deliverable Obligation Category specified in the applicable Final Terms, and, subject to paragraph (3) of "(B) Interpretation of Provisions" in the definition of "Deliverable Obligation", having each of the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms, in each case, immediately preceding the date on which such Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring without regard to whether the Obligation would satisfy such Deliverable Obligation Category or Deliverable Obligation Characteristics after such Restructuring.

"**Specified Number**" means the number of Public Source(s) specified in the applicable Final Terms, or if no number is specified in the applicable Final Terms, two.

"**Substitute Reference Obligation**" means one or more obligations of a Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) that will replace one or more Reference Obligations in respect of such Reference Entity, identified by the Calculation Agent in accordance with the following procedures:

(a) In the event that:

(i) a Reference Obligation in respect of such Reference Entity is redeemed in whole; or

(ii) in the opinion of the Calculation Agent (A) the aggregate amounts due under any Reference Obligation in respect of such Reference Entity have been materially reduced by redemption or otherwise (other than due to any scheduled redemption, amortisation or prepayments), (B) any Reference Obligation in respect of such Reference Entity is an Underlying Obligation with a Qualifying Guarantee of a Reference Entity and, other than due to the existence or occurrence of a Credit Event, the Qualifying Guarantee is no longer a valid and binding obligation of such Reference Entity enforceable in accordance with its terms or (C) for any other reason, other than due to the existence or occurrence of a Credit Event, any Reference Obligation in respect of a Reference Entity is no longer an obligation of such Reference Entity,

the Calculation Agent shall identify one or more Obligations to replace such Reference Obligation in respect of a Reference Entity.

(b) Any Substitute Reference Obligation or Substitute Reference Obligations shall be an Obligation that (1) ranks pari passu (or, if no such Obligation exists, then, at the option of the Issuer an Obligation that ranks senior) in priority of payment with such Reference Obligation (with the ranking in priority of payment of such Reference Obligation being determined as of the later of (A) the Trade Date and (B) the date on which such Reference Obligation was issued or incurred and not reflecting any change to such ranking in priority of payment after such later date), (2) preserves the economic equivalent, as closely as practicable as determined by the Calculation Agent of the delivery and payment obligations of the Issuer and (3) is an obligation of a Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee). The Substitute Reference Obligation or Substitute Reference Obligations identified by the Calculation Agent shall, without further action, replace such Reference Obligation or Reference Obligations.

(c) If more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to one or more but not all such Reference Obligations, and the Calculation Agent determines that no Substitute Reference Obligation is available for one or more of such Reference Obligations, each such Reference Obligation for which no Substitute Reference Obligation is available shall cease to be a Reference Obligation.

(d) If more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of

the events set forth in paragraph (a) above has occurred with respect to all such Reference Obligations, and the Calculation Agent determines that at least one Substitute Reference Obligation is available for any such Reference Obligation, then each such Reference Obligation shall be replaced by a Substitute Reference Obligation and each Reference Obligation for which no Substitute Reference Obligation is available will cease to be a Reference Obligation.

(e) If:

(i) more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to all such Reference Obligations and the Calculation Agent determines that no Substitute Reference Obligation is available for any of such Reference Obligations; or

(ii) only one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to such Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for that Reference Obligation,

then the Calculation Agent shall continue to attempt to identify a Substitute Reference Obligation until the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date (if any) and (C) the Repudiation/Moratorium Evaluation Date (if any). If (i) either Cash Settlement is specified in the applicable Final Terms and the Credit Event Redemption Amount is determined by reference to a Reference Obligation or Physical Delivery is specified in the applicable Final Terms and the Reference Obligation is the only Deliverable Obligation and (ii) on or prior to the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date or (C) the Repudiation/Moratorium Evaluation Date, a Substitute Reference Obligation has not been identified, the obligations of the Issuer under the Notes shall cease as of the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date or (C) the Repudiation/Moratorium Evaluation Date.

(f) For the purposes of identification of a Reference Obligation, any change in the Reference Obligation's CUSIP or ISIN number or other similar identifier will not, in and of itself, convert such Reference Obligation into a different Obligation.

"**Succession Event**" means an event such as a merger, de-merger, consolidation, amalgamation, transfer of assets or liabilities, spin off or other similar event in which one entity succeeds to the obligations of another entity, whether by operation of law or pursuant to any agreement. Notwithstanding the foregoing, "**Succession Event**" shall not include an event in which the holders of obligations of the Reference Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connection with a merger, demerger, consolidation, amalgamation, transfer of assets or liabilities, spin-off or other similar event.

"**Successor**" means:

(a) in relation to a Reference Entity that is not a Sovereign, the entity or entities, if any, determined as set forth below:

(i) if one entity directly or indirectly succeeds to seventy-five per cent. or more of the Relevant Obligations of the Reference Entity by way of a Succession Event, that entity will be the sole Successor;

(ii) if only one entity directly or indirectly succeeds to more than twenty-five per cent. (but less than seventy-five per cent.) of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent. of the Relevant Obligations will be the sole Successor;

(iii) if more than one entity each directly or indirectly succeed to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with Reference Entity, the entities that succeed to more than twenty-five per cent. of the Relevant Obligations will each be a Successor and these Terms and Conditions and/or the applicable Final Terms will be adjusted as provided below;

(iv) if one or more entity each directly or indirectly succeed to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity by way of a Succession Event, and more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor and these Terms and Conditions and/or the applicable Final Terms will be adjusted as provided below;

(v) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity will not be changed in any way as a result of the Succession Event; and

(vi) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations (or, if two or more entities succeed to an equal percentage of Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations of the Reference Entity) will be the sole Successor; and

(b) in relation to a Sovereign Reference Entity, any direct or indirect successor(s) to that Reference Entity irrespective of whether such successor(s) assumes any of the obligations of such Reference Entity.

In the case of (a) above, the Calculation Agent will be responsible for determining, as soon as reasonably practicable after it becomes aware of the relevant Succession Event (but no earlier than fourteen calendar days after the legally effective date of the Succession Event), and with effect from the legally effective date of the Succession Event, whether the relevant thresholds set forth above have been met, or which entity qualifies under (a)(vi) above, as applicable. In calculating the percentages used to determine whether the relevant thresholds set forth above have been met, or which entity qualifies under (a)(vi) above, as applicable, the Calculation Agent shall use, in respect of each applicable Relevant Obligation included in such calculation, the amount of the liability in respect of such Relevant Obligation listed in the Best Available Information and shall, as soon as practicable after such calculation, make such calculation available for inspection by Noteholder(s) at the specified office of the Principal Paying Agent.

Where pursuant to paragraph (a) (iii) or (a)(iv) above, more than one Successor has been identified, the Calculation Agent shall adjust such of these Terms and Conditions and/or the applicable Final Terms as it in its sole and absolute discretion acting in a commercially reasonable manner shall determine to be appropriate to reflect that the relevant Reference Entity has been succeeded by more than one Successor and shall determine the effective date of that adjustment. The Calculation Agent shall be deemed to be acting in a commercially reasonable manner if it adjusts such of these Terms and Conditions and/or the applicable Final Terms in such a manner as to reflect the adjustment to and/or division of any credit derivative transaction(s) related to or underlying the Notes under the provisions of the 2003 ISDA Credit Derivatives Definitions.

Upon the Calculation Agent making such adjustment, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 18, stating the adjustment to these Terms and Conditions and/or the applicable Final Terms and giving brief details of the relevant Succession Event.

For the purposes of this definition of "Successor", "**succeed**" means, with respect to a Reference Entity and its Relevant Obligations (or, as applicable, obligations), that a party other than such Reference Entity (i) assumes or becomes liable for such Relevant Obligations (or, as applicable, obligations) whether by operation of law or pursuant to any agreement or (ii) issues Bonds that are exchanged for Relevant Obligations (or, as applicable, obligations), and in either case such Reference Entity is no longer an obligor (primarily or secondarily) or guarantor with respect to such Relevant Obligations (or, as applicable, obligations). The determinations required pursuant to paragraph (a) of this definition of "Successor" shall be made, in the case of an exchange offer, on the basis of the Outstanding Principal Balance of Relevant Obligations tendered and accepted in the exchange and not on the basis of the Outstanding Principal Balance of Bonds for which Relevant Obligations have been exchanged.

Where:

(A) a Reference Obligation is specified in the applicable Final Terms; and

(B) one or more Successors to the Reference Entity have been identified; and

(C) any one or more such Successors have not assumed the Reference Obligation,

a Substitute Reference Obligation will be determined in accordance with the definition of "Substitute Reference Obligation" above.

"**Supranational Organisation**" means any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns, and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development.

"**Trade Date**" means the date specified as such in the applicable Final Terms.

"**Undeliverable Obligation**" means a Deliverable Obligation included in the Asset Amount which, on the Settlement Date for such Deliverable Obligation, the Calculation Agent determines for any reason (including without limitation, failure of the relevant clearance system or due to any law, regulation, court order or market conditions or the non-receipt of any requisite consents with respect to the Delivery of Loans) it is impossible or illegal to Deliver on the Settlement Date.

"**Unwind Costs**" means the amount specified in the applicable Final Terms or if "Standard Unwind Costs" are specified in the applicable Final Terms, an amount determined by the Calculation Agent equal to the sum of (without duplication) all costs, fees, charges, expenses (including loss of funding), tax and duties incurred by the Issuer and/or any of its Affiliates in connection with the redemption of the Notes and the related termination, settlement or re-establishment of any hedge or related trading position, such amount to be apportioned pro rata amongst each nominal amount of Notes in the lowest Specified Denomination.

"**Valuation Date**" means (a) where Physical Delivery is specified as applying in the applicable Final Terms the day falling three Business Days after the Final Delivery Date, or (b) where Cash Settlement is specified as applying in the applicable Final Terms, if "Single Valuation Date" is specified in the applicable Final Terms, the date that is the number of Business Days specified in the Final Terms after the Credit Event Determination Date or, if the number of Business Days is not so specified, five Business Days after the Credit Event Determination Date, and if "Multiple Valuation Dates" is specified in the applicable Final Terms, each of the following dates:

(i) the date that is the number of Business Days specified in the applicable Final Terms after the Credit Event Determination Date (or, if the number of Business Days is not specified, five Business Days); and

(ii) each successive date that is the number of Business Days specified in the applicable Final Terms (or if the number of Business Days is not so specified, five Business Days) after the date on which the Calculation Agent obtains a Market Value with respect to the immediately preceding Valuation Date.

When "Multiple Valuation Dates" is specified in the applicable Final Terms, the total number of Valuation Dates shall be equal to the number of Valuation Dates specified in the applicable Final Terms (or, if the number of Valuation Dates is not so specified, five Valuation Dates).

If neither Single Valuation Date nor Multiple Valuation Dates is specified in the applicable Final Terms, Single Valuation Date shall apply.

"**Valuation Method**":

(a) The following Valuation Methods may be specified in the applicable Final Terms for a Series with only one Reference Obligation and only one Valuation Date:

(i) "**Market**" means the Market Value determined by the Calculation Agent with respect to the Valuation Date; or

(ii) "**Highest**" means the highest Quotation obtained by the Calculation Agent with respect to the Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Highest.

(b) The following Valuation Methods may be specified in the applicable Final Terms for a Series with only one Reference Obligation and more than one Valuation Date:

(i) "**Average Market**" means the unweighted arithmetic mean of the Market Values determined by the Calculation Agent with respect to each Valuation Date; or

(ii) "**Highest**" means the highest Quotation obtained by the Calculation Agent with respect to any Valuation Date; or

(iii) "**Average Highest**" means the unweighted arithmetic mean of the highest Quotations obtained by the Calculation Agent with respect to each Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Average Highest.

(c) The following Valuation Methods may be specified in the applicable Final Terms for a Series with more than one Reference Obligation and only one Valuation Date:

(i) "**Blended Market**" means the unweighted arithmetic mean of the Market Value for each Reference Obligation determined by the Calculation Agent with respect to the Valuation Date; or

(ii) "**Blended Highest**" means the unweighted arithmetic mean of the highest Quotations obtained by the Calculation Agent for each Reference Obligation with respect to the Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Blended Highest.

(d) The following Valuation Methods may be specified in the applicable Final Terms for a Series with more than one Reference Obligation and more than one Valuation Date:

(i) "**Average Blended Market**" means, using values with respect to each Valuation Date determined by the Calculation Agent in accordance with the Blended Market Valuation Method, the unweighted arithmetic mean of the values so determined with respect to each Valuation Date; or

(ii) "**Average Blended Highest**" means, using values with respect to each Valuation Date determined by the Calculation Agent in accordance with the Blended Highest Valuation Method, the unweighted arithmetic mean of the values so determined with respect to each Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Average Blended Highest.

(e) Notwithstanding paragraphs (a) to (d) above, if Quotations include Weighted Average Quotations or fewer than two Full Quotations, the Valuation Method shall be Market, Average Market, Blended Market or Average Blended Market, as the case may be.

"**Valuation Time**" means the time specified as such in the applicable Final Terms or, if no time is so specified, 11.00 a.m. in the principal trading market for the Reference Obligation.

"**Weighted Average Quotation**" means in accordance with the Quotation Method, the weighted average of firm quotations obtained from Quotation Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of the Reference Obligation with an Outstanding Principal Balance of as large a size as available but less than the Quotation Amount (but, if a Minimum Quotation Amount is specified in the applicable Final Terms, of a size equal to the Minimum Quotation Amount or, if quotations of a size equal to the Minimum Quotation Amount are not available, quotations as near in size as practicable to the Minimum Quotation Amount) that in aggregate are approximately equal to the Quotation Amount.

(k) Credit Event Notice after Restructuring Credit Event

If Condition 12(k) is specified as applicable in the applicable Final Terms, then, notwithstanding anything to the contrary in these Terms and Conditions, upon the occurrence of a Restructuring Credit Event during the Notice Delivery Period:

(a) the Calculation Agent may deliver a Credit Event Notice in respect of an amount (the "**Partial Redemption Amount**") that is less than the principal amount outstanding of each Note immediately prior to the delivery of such Credit Event Notice. In such circumstances the provisions of Condition 12 shall be deemed to apply to the Partial Redemption Amount only and each such Note shall be redeemed in part (such redeemed part being equal to the Partial Redemption Amount).

(b) For the avoidance of doubt (i) the principal amount of each such Note not so redeemed in part shall remain outstanding and interest shall accrue on the principal amount outstanding of such Note as provided in Condition 6 (adjusted in such manner as the Calculation Agent in its sole and absolute discretion determines to be appropriate), (ii) the provisions of Condition 12 shall apply to such principal amount outstanding of such Note in the event that subsequent Credit Event Notices are delivered in respect of the Reference Entity that was the subject of the Restructuring Credit Event and (iii) once a Credit Event Notice with respect to a Restructuring Credit Event has been delivered in respect of a Reference Entity, no further Credit Event Notices may be delivered in respect of any Reference Entity other than the Reference Entity that was the subject of the Restructuring Credit Event.

(c) If the provisions of this Condition 12(k) apply in respect of the Notes, on redemption of part of each such Note the relevant Note or, if the Notes are represented by a Global Note, such Global Note, shall be endorsed to reflect such part redemption.

(l) Provisions relating to Multiple Holder Obligation

If Condition 12(l) is specified as applicable in the applicable Final Terms, notwithstanding anything to the contrary in the definition of "Restructuring" and related provisions, the occurrence of, agreement to, or announcement of, any of the events described in sub-paragraphs (i) to (v) of the definition of "Restructuring" shall not be a Restructuring unless the Obligation in respect of any such events is a Multiple Holder Obligation.

"**Multiple Holder Obligation**" means an Obligation that (i) at the time of the event which constitutes a Restructuring Credit Event is held by more than three holders that are not Affiliates of each other and (ii) with respect to which a percentage of holders (determined pursuant to the terms of the Obligation as in effect on the date of such event) at least equal to sixty-six and two-thirds is required to consent to the event which constitutes a Restructuring Credit Event.

(m) Provisions taken from the ISDA supplement titled "Additional Provisions – Monoline Insurer as Reference Entity (May 2003)"

If Condition 12(m) is specified as applicable in the applicable Final Terms, the following provisions will apply:

(a) Obligation and Deliverable Obligation. Paragraph (a) of the definition of "Obligation" in Condition 12(j) and paragraph (a) of the definition of "Deliverable Obligation" in Condition 12(j) are hereby amended by adding "or Qualifying Policy" after "as provider of a Qualifying Affiliate Guarantee".

(b) Interpretation of Provisions. In the event that an Obligation or a Deliverable Obligation is a Qualifying Policy, paragraph (B) of the definition of "Deliverable Obligation" in Condition 12(j) will apply, with references to the Qualifying Guarantee, the Underlying Obligation and the Underlying Obligor deemed to include the Qualifying Policy, the Insured Instrument and the Insured Obligor, respectively, except that:

(i) the Obligation Category Borrowed Money and the Obligation Category and Deliverable Obligation Category Bond shall be deemed to include distributions payable under an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, the Deliverable Obligation Category Bond shall be deemed to include such an Insured Instrument, and the terms "obligation" and "obligor" as used in this Condition 12 in respect of such an Insured Instrument shall be construed accordingly;

(ii) references in the definitions of Assignable Loan and Consent Required Loan to "the guarantor" and "guaranteeing" shall be deemed to include "the insurer" and "insuring", respectively;

(iii) neither the Qualifying Policy nor the Insured Instrument must satisfy on the relevant date the Deliverable Obligation Characteristic of Accelerated or Matured, whether or not that

characteristic is otherwise specified as applicable in the applicable Final Terms;

(iv) if the Assignable Loan, Consent Required Loan, Direct Loan Participation or Transferable Deliverable Obligation Characteristics are specified in the applicable Final Terms and if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument; and

(v) with respect to an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, the term "Outstanding Principal Balance" shall mean the outstanding Certificate Balance and "maturity", as such term is used in the Maximum Maturity Deliverable Obligation Characteristic, shall mean the specified date by which the Qualifying Policy guarantees or insures, as applicable, that the ultimate distribution of the Certificate Balance will occur.

(c) Not Contingent. An Insured Instrument will not be regarded as failing to satisfy the Not Contingent Deliverable Obligation Characteristic solely because such Insured Instrument is subject to provisions limiting recourse in respect of such Insured Instrument to the proceeds of specified assets (including proceeds subject to a priority of payments) or reducing the amount of any Instrument Payments owing under such Insured Instrument, provided that such provisions are not applicable to the Qualifying Policy by the terms thereof and the Qualifying Policy continues to guarantee or insure, as applicable, the Instrument Payments that would have been required to be made absent any such limitation or reduction. By specifying that this Condition 12(m) is applicable, no inference should be made as to the interpretation of the "Not Contingent" Deliverable Obligation Characteristic in the context of limited recourse or similar terms applicable to Deliverable Obligations other than Qualifying Policies.

(d) Deliver. For the purposes of the definition of "Deliver" in Condition 12(j), "**Deliver**" with respect to an obligation that is a Qualifying Policy means to Deliver both the Insured Instrument and the benefit of the Qualifying Policy (or a custodial receipt issued by an internationally recognised custodian representing an interest in such an Insured Instrument and the related Qualifying Policy), and "Delivery" and "Delivered" will be construed accordingly.

(e) Provisions for Determining a Successor. The paragraph commencing "For the purposes of this definition of "Successor" ..." in the definition of "Successor" in Condition 12(j) is hereby amended by adding "or insurer" after "or guarantor".

(f) Substitute Reference Obligation. The first paragraph of the definition of "Substitute Reference Obligation" and paragraph (b) thereof in Condition 12(j) is hereby amended by adding "or Qualifying Policy" after "or as provider of a Qualifying Affiliate Guarantee". For purposes of sub-paragraph (a)(ii)(B) the definition of "Substitute Reference Obligation" references to "the Qualifying Guarantee" and the "Underlying Obligation" shall be deemed to include "the Qualifying Policy" and "the Insured Instrument", respectively.

(g) Other Provisions. For purposes of paragraph (a)(ii) of the definition of "Deliverable Obligation" and the definitions of "Credit Event" and "Deliver" in Condition 12(j) references to "the Underlying Obligation" and "the Underlying Obligor" shall be deemed to include "Insured Instruments" and the "Insured Obligor", respectively.

(h) Additional Definitions.

"**Qualifying Policy**" means a financial guaranty insurance policy or similar financial guarantee pursuant to which a Reference Entity irrevocably guarantees or insures all Instrument Payments of an instrument that constitutes Borrowed Money (modified as set forth in this Condition 12(m)) (the "Insured Instrument") for which another party (including a special purpose entity or trust) is the obligor (the "Insured Obligor"). Qualifying Policies shall exclude any arrangement (i) structured as a surety bond, letter of credit or equivalent legal arrangement or (ii) pursuant to the express contractual terms of which the payment obligations of the Reference Entity can be discharged or reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than the payment of Instrument Payments). The benefit of a Qualifying Policy must be capable of being Delivered together with the Delivery of the Insured Instrument.

"**Instrument Payments**" means (A) in the case of any Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest, (x) the specified periodic distributions in respect of interest or other return on the Certificate Balance on or prior to the ultimate distribution of the Certificate Balance and (y) the ultimate distribution of the Certificate Balance on or prior to a specified date and (B) in the case of any other Insured Instrument, the scheduled payments of principal and interest, in the case of both (A) and (B) (1) determined without regard to limited recourse or reduction provisions of the type described in Condition 12(m)(c) above and (2) excluding sums in respect of default interest, indemnities, tax gross-ups, make-whole amounts, early redemption premiums and other similar amounts (whether or not guaranteed or insured by the Qualifying Policy).

"**Certificate Balance**" means, in the case of an Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest, the unit principal balance, certificate balance or similar measure of unreimbursed principal investment.

(n) Supplement to provisions relating to Qualifying Guarantee and Underlying Obligation

(a) If this Condition 12(n) is specified as applicable in the applicable Final Terms, Condition 12(j) shall be amended by:

(i) the deletion of the definition of "Downstream Affiliate" and the substitution of the following therefor:

"**Downstream Affiliate**" means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 per cent. owned, directly or indirectly, by the Reference Entity.";

(ii) the deletion of paragraphs (B)(4)(ii) and (B)(4)(iii) of the definition of "Deliverable Obligation", the substitution of the following therefor and the re-numbering of the remaining paragraphs accordingly:

"(ii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency and Not Domestic Law. For these purposes, unless otherwise specified in the applicable Final Terms, (A) the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro shall not be a Domestic Currency and (B) the laws of England and the laws of the State of New York shall not be a Domestic Law."; and

(iii) the deletion of the definition of "Qualifying Guarantee" and the substitution of the following therefor:

"**Qualifying Guarantee**" means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the "Underlying Obligation") for which another party is the obligor (the "Underlying Obligor"). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced or otherwise altered or assigned (other than by operation law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation."; and

(b) Condition 12(l) shall be amended by the insertion of the following at the end of the first paragraph thereof:

"provided that any Obligation that is a Bond shall be deemed to satisfy the requirement in (ii) of the definition of "Multiple Holder Obligation" below".

(o) Calculation Agent and Calculation Agent Notices

Whenever the Calculation Agent is required to act or exercise judgment, it will do so in good faith and in a commercially reasonable manner. The Calculation Agent shall, as soon as practicable after making any determination pursuant to this Condition 12, notify the Issuer and the Noteholders of such determination. The Calculation Agent is not acting as a fiduciary for or as an advisor to the Noteholders in respect of its duties as Calculation Agent in connection with any Notes.

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to this Condition 12 shall (in the absence of manifest error) be final and binding on the Issuer and the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and neither the Calculation Agent nor the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

In relation to the delivery by the Calculation Agent to the Issuer of any notice pursuant to this Condition 12, a notice delivered on or prior to 4:00 p.m. (Calculation Agent City time) on a Calculation Agent City Business Day will be effective on such Calculation Agent City Business Day. A notice delivered after 4:00 p.m. (Calculation Agent City time) on a Calculation Agent City Business Day or on a day which is not a Calculation Agent City Business Day will be deemed effective on the next following Calculation Agent City Business Day, regardless of the form in which it is delivered. For purposes of the two preceding sentences, a notice given by telephone will be deemed to have been delivered at the time the telephone conversation takes place. If the notice is delivered by telephone, a written confirmation will be executed and delivered confirming the substance of that notice within one Calculation Agent City Business Day of that notice. Failure to provide that written confirmation will not affect the effectiveness of that telephonic notice.

13 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of payments of principal) or Coupons (in the case of interest), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on or at the option of the holder, by transfer to an account denominated in that currency with a bank in the principal financial centre of the country of that currency (other than the United States) provided that (i) in the case of Euro, the transfer may be to, or the cheque drawn on, a Euro account with a bank in a city in which banks have access to the TARGET System and (ii) in the case of yen, the transfer will be to a non-resident yen account with an authorised foreign exchange bank (in the case of payment to a non-resident of Japan).

(b) Registered Notes

(i) Payments of principal in respect of Registered Notes will be made against presentation and surrender of the relevant Individual Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 13(b)(ii).

(ii) Interest on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each

Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in Condition 13(a), such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of that currency.

(c) Payments subject to law etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such other offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(e) Appointment of Agents

The Paying Agents, the Registrar, the Transfer Agents, the Administration Agent, the Custodian, the Calculation Agent and their respective specified offices are set out in the Agency Agreement. The Paying Agents, the Registrar, the Transfer Agent, the Administration Agent, the Custodian and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, the Transfer Agent, the Administration Agent, the Custodian, or the Calculation Agent and to appoint additional or other Paying Agents, Registrar, Transfer Agent, Administration Agent or Calculation Agent (if applicable), provided that it will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Custodian, (v) an Administration Agent, (vi) a Calculation Agent where the Conditions so require one, (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive and (viii) such other agent as may be required by the rules of any stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 13(d) above.

Notice of any such change or any change of any specified office will be given promptly to the Noteholders in accordance with Condition 18.

(f) Unmatured Coupons and Unexchanged Talons

(i) Upon the due date for redemption of any Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no coupon shall be delivered in respect of such Talon.

(iii) Where any Note is presented for redemption without all unmatured Coupons relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provisions of such indemnity as the Issuer may require.

(iv) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note. Interest accrued on a Note which only bears interest after its Maturity Date or date of redemption shall be payable on redemption of such Note against presentation thereof.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon is not a Business Day (as defined in Condition 6(b)(i)(4)(A)), the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

(i) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 11(a);

(ii) the Final Redemption Amount;

(iii) the Early Redemption Amount;

(iv) the Optional Redemption Amount(s) (if any);

(v) in relation to Credit Linked Notes, the Credit Event Redemption Amount (if any);

(vi) in relation to Equity Linked Redemption Notes, the Failure to Deliver Settlement Price (if any);

(vii) in relation to Equity Linked Redemption Notes, the Disruption Cash Settlement Price (if any);

(viii) in relation to Notes redeemable in instalments, the Instalment Amounts;

(ix) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7 (e)(iii)); and

(x) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 22(a).

14 Enforcement

(a) Events of Default and Acceleration

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of Notes then outstanding, or if so directed by an Extraordinary Resolution of such holders, shall give notice (subject in each case to being indemnified and/or secured to its satisfaction) to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount, together with accrued interest (if any) thereon and the Series Security shall become enforceable, as provided in the Trust Deed, upon the occurrence of an Event of Default. An Event of Default is defined in the Master Trust Deed (but subject to the provisions of the Supplemental Trust Deed) as the occurrence of any of the following events:

(i) the Issuer defaults in the payment of the Redemption Amount, Final Redemption Amount, Early Redemption Amount or the Optional Redemption Amount, as the case may be, or defaults for a period of 14 days or more in the payment of any sum other than the Redemption Amount, Final Redemption Amount, Early Redemption Amount or the Optional Redemption Amount, as the case may be, due in respect of the Notes, or any of them; or

(ii) if the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (unless such failure is, in the opinion of the Trustee, incapable of remedy in which case no such notice as is referred to in this paragraph shall be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) if any order shall be made by any competent court or any resolution passed for the winding up or dissolution of the Issuer save for the purposes of amalgamation, merger, consolidation, reorganisation or other

similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution or if the Issuer is subject to any insolvency, bankruptcy, compulsory liquidation, examination, controlled management procedures or suspension of payments; or

(iv) if the Issuer is deemed to be unable to pay its debts as and when they fall due within the meaning of Section 214 of the Companies Act, 1963 of Ireland (as amended) or Section 2(3) of the Companies (Amendment) Act, 1990 of Ireland (as amended).

(b) Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction.

(c) Non Petition and Limited Recourse

Only the Trustee may pursue the remedies available under the Trust Deed to enforce the rights of the Noteholders or Couponholders and no Noteholder or Couponholder is entitled to proceed against the Issuer unless the Trustee, having become bound to proceed in accordance with the terms of the Trust Deed, fails or neglects to do so within a reasonable time and such failure or neglect is continuing.

The Trustee, any Swap Counterparty, the Agents, the Portfolio Manager and the Noteholders and Couponholders shall have recourse only to the Series Secured Assets for satisfaction and discharge of the Issuer's obligations and liabilities arising under or in connection with the Notes or the Series Documents and, the Trustee having realised the same and distributed the net proceeds in accordance with the Supplemental Trust Deed, the Trustee, any Swap Counterparty, any Agent, the Portfolio Manager and the Noteholders and Couponholders or anyone acting on behalf of any of them shall not be entitled to take any further steps against the Issuer to recover any further sum (save for lodging a claim in the liquidation of the Issuer initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer) and the right to receive any such sum shall be extinguished. In particular, none of the Trustee, any Swap Counterparty, any Agent, the Portfolio Manager or any Noteholder or Couponholder, nor any other party to a Series Document shall be entitled to petition or take any other step for the winding-up of, or take any steps to institute insolvency proceedings in relation to, the Issuer.

15 Prescription

Claims against the Issuer for payment in respect of Notes and Coupons shall be prescribed and become void unless made within ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

16 Agents

In acting under the Agency Agreement and the Trust Deed, the Agents which are party to the Agency Agreement act solely as agents of the Issuer unless an Event of Default or Potential Event of Default (as defined in the Trust Deed occurs), when such Agents will, if required to do so, act as agents of the Trustee, and will not assume any obligation or relationship of agency or trust to or with the Noteholders or the Couponholders. The Issuer has agreed in the Trust Deed to perform and observe the obligations imposed upon it under the Agency Agreement and the Trust Deed. Such agreements may be amended by the parties thereto with the approval of the Trustee if, in the opinion of the Trustee, the amendment is not materially prejudicial to the interests of the Noteholders. The Issuer may not, without the consent of the Trustee, replace any Agent.

17 Replacement of Notes, Coupons and Talons

If a Note, Individual Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and stock exchange regulations, at the specified office of the Principal Paying Agent in Dublin (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Individual Certificates) in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Coupon or Talon is subsequently presented for payment or as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Individual Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Individual Certificates, Notes, Coupons or Talons must be surrendered before replacements will be issued.

18 Notices

Notices to holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the next weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

Notices to holders of Notes represented by a Global Note or Global Certificate, as applicable, will be delivered to the Common Depositary for communication by it to Euroclear and/or Clearstream, Luxembourg or other clearing system for communication by them to their participants and for communication by such participants to entitled accountholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid shall be deemed to have been given on the day on which it is delivered to the Common Depositary. In addition, if the Notes are not represented by a Global Note or Global Certificate, or if the rules of the Irish Stock Exchange or any other stock exchange or market on which the relevant Notes are listed or admitted to trading so require, all notices to holders of Notes will be published in a daily newspaper with circulation in Ireland (expected to be The Irish Times). If in the opinion of the Trustee, any such publication is not practicable, notice shall be validly given if published in another leading English language newspaper with general circulation in Europe. Any such notice to holders of Bearer Notes and Registered Notes shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

19 Meetings of Noteholders; Modification; Waiver; etc.

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of the terms and conditions of the Notes. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting, one or more persons being or representing Noteholders, whatever the principal amount of the Notes so held or represented, except that, *inter alia*, the terms of the Series Security and certain terms concerning the amount and currency and the postponement of the due dates of payment of the Notes and the Coupons (except where such modification is, in the opinion of the Trustee, not materially prejudicial to the interests of Noteholders), or the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, may be modified only by Extraordinary Resolutions passed at a meeting the quorum at which shall be one or more persons holding or representing not less than two-thirds, or at any such adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they were present at such meeting, and on the holders of Coupons. The Trustee, without consulting the Noteholders or holders of Coupons, may determine that an event which would otherwise be an Event of Default shall not be so treated in accordance with Condition 19(b) below.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders or holders of Coupons, to (i) any modification of any of the provisions of the Supplemental Trust Deed or any other Series Document which is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as provided in the Trust Deed), waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or any other Series Document which, in any such case, is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders. Any such determination, modification, authorisation or waiver shall be binding on the Noteholders and holders of Coupons, and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) Substitution

Subject to such amendment of the Trust Deed and such other conditions as the Trustee may require including the transfer of the Series Security, but without the consent of the Noteholders or Couponholders, the Trustee may agree to the substitution of any other company in place of the Issuer as principal debtor under the Trust Deed and the Notes and in place of the Issuer under any Series Document. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed and/or any Series Document provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Subject to such amendment of the Trust Deed and such other conditions as the Trustee may

require, but without the consent of the Noteholders or Couponholders, the Trustee may also agree to the change of the branch or office of the Custodian.

(d) Entitlement of the Trustee

In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation or substitution as aforesaid) under these Conditions or the Trust Deed the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholders or Couponholders be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any exercise upon individual Noteholders or Couponholders. Save as otherwise provided, the Trustee shall not have regard to the interests of any secured party other than the Noteholders except to apply the proceeds of enforcement of the Series Security in accordance with the order of priority set out in the Supplemental Trust Deed.

(e) Meetings

The Trust Deed provides *inter alia* that (a) except where the Conditions specifically state that one meeting of Noteholders of more than one Series will be held, separate meetings of Noteholders of each separate Series will normally be held although the Trustee may from time to time determine that meetings of Noteholders of each separate Series issued by the Issuer may be held together; (b) a resolution that in the opinion of the Trustee affects one Series alone shall be deemed to have been duly passed if passed at a separate meeting of the holders of Notes of the Series concerned; (c) a resolution which in the opinion of the Trustee affects the holders of more than one Series of Notes issued by the Issuer but does not give rise to a conflict of interest between the holders of the other Series of Notes concerned shall be deemed to have been duly passed if passed at a single meeting of the holders of Notes of all the relevant Series provided that for the purposes of determining the votes that a Noteholder is entitled to cast, each Noteholder shall have one vote in respect of each integral currency limit of the specified currency of the Notes; (d) a resolution that in the opinion of the Trustee affects the holders of more than one Series of Notes and gives or may give rise to a conflict of interest between the holders of the other Series of Notes concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the holders of the relevant Series of Notes, except where the Conditions specifically state that one meeting of Noteholders of more than one Series will be held; and (e) if the Issuer proposes to exchange part of an existing Series of Notes for Notes of a new Series, only the Notes to be exchanged shall be deemed to be Notes of the relevant Series.

(f) Series Secured Assets

Except where the Conditions or the Series Documents expressly so provide, the Issuer will not exercise any rights or take any action in its capacity as holder of the Series Secured Assets unless directed to do so by the Trustee or by an Extraordinary Resolution of the Noteholders. If such direction is given, the Issuer will act only in accordance with such directions.

20 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including for the exercise of any voting rights in respect of the Series Secured Assets, for the validity, sufficiency and enforceability (which the Trustee has not investigated) of the Series Security. The Trustee is not obliged to take any action under the Trust Deed unless indemnified and/or secured to its satisfaction. The Trustee and any affiliate is entitled to enter into business transactions with the Issuer, and/or any issuer or guarantor (where applicable) of any of the Series Secured Assets, without accounting to the Noteholders for profit resulting therefrom.

The Trustee is exempted from liability with respect to any loss or theft or reduction in value of the Series Secured Assets, from any obligation to insure or to procure the insuring of the Series Secured Assets and from any claim arising from the fact that the Series Secured Assets will be held in safe custody by the Custodian or any custodian selected by the Trustee (in each case, if applicable). The Trustee is not responsible for supervising the performance by any other person of its obligations to the Issuer and, in particular, shall not have any responsibility for the administration, management or operation of the Series Secured Assets.

The Trust Deed provides that in acting as Trustee under the Trust Deed, the Trustee shall not assume any duty or responsibility to the Custodian or the Principal Paying Agent (other than to pay to any such persons any monies received and repayable to it and to act in accordance with the provisions of the Supplemental Trust Deed) and shall have regard solely to the interests of the Noteholders.

21 Further Issues

(a) Non-Fungible Further Indebtedness

The Issuer shall be at liberty from time to time (without the consent of the Noteholders or the Couponholders, but provided that the Trustee is satisfied that the restrictions contained in this Condition will be complied with) to issue further bonds and notes and to borrow under, buy, sell or enter into other obligations in the form of loans, options, swaps or other derivative transactions. Such further bonds, notes or other obligations must be issued under the Programme and secured on assets of the Issuer other than the Series Secured Assets or the Issuer's share capital and on terms that provide for the extinction of all claims in respect of such bonds, notes or other obligations after application of the proceeds of enforcement of the security over the assets on which such bonds, notes or other obligations are secured (or arrangements have been entered into that, to the satisfaction of the Trustee, have a like result).

(b) Fungible Further Indebtedness

The Issuer may from time to time (without the consent of the Noteholders or the Couponholders, but provided that the Trustee is satisfied that the restrictions contained in this Condition will be complied with) issue further bonds and notes that have, when issued, the same terms and conditions as the Notes in all respects (or in all respects except for the Issue Date, the Issue Price and/or the Interest Commencement Date) and that are consolidated and form a single series with the Notes; provided that (unless otherwise approved by an Extraordinary Resolution of the Noteholders), (i) the Issuer provides additional security for such new bonds or notes that comprises assets that are fungible with, and have the

same proportionate composition as, the Series Collateral in respect of the relevant existing Notes and that has an aggregate principal amount at least equal to the principal amount of such existing Series Collateral multiplied by a fraction, the numerator of which is the aggregate principal amount of such new bonds or notes and the denominator of which is the aggregate principal amount of the existing Notes; (ii) the Issuer enters into an additional or supplemental swap agreement varying the terms of the Swap Agreement (if any) to take account of the new bonds or notes on terms no less favourable than those of the Swap Agreement (if any). Upon issue of such new bonds or notes, the Notes and such new bonds or notes shall form a single series and be secured on the Series Collateral and such additional assets. Such further bonds or notes shall be constituted and secured by a further supplemental trust deed.

22 Taxation

(a) Tax Gross-Up

If Condition 22(a) is specified as applicable in the applicable Final Terms, all payments of principal and/or interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other charges of whatever nature imposed or levied by or on behalf of Ireland or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes, duties, assessments or other charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Ireland other than the mere holding of such Note, Receipt or Coupon; or

(ii) presented for payment in Ireland or through an intermediary in Ireland; or

(iii) presented for payment by, or on behalf of, a Noteholder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so; or

(iv) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on such thirtieth day; or

(v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(vi) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 18.

(b) No Tax Gross-Up

If Condition 22(b) is specified as applicable in the applicable Final Terms, the Issuer shall not be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, presentation and surrender for payment, or enforcement of any Note and all payments made by the Issuer shall be made subject to any tax, duty, withholding or other payment which may be required to be made, paid, withheld or deducted.

23 Governing Law

The Notes, Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of Ireland. The Issuer has in the Trust Deed submitted to the jurisdiction of the Irish courts for all purposes in connection with the Notes, the Coupons and the Talons.

FORM OF FINAL TERMS

Final Terms dated [•]

Arcade Finance p.l.c.

(incorporated with limited liability in Ireland with registered number 435310)

[Title of relevant Tranche of Notes (specifying type and nominal amount of Notes) (the "Notes")]
issued pursuant to the
€40,000,000,000 Programme for the issue of Notes
arranged by

KBC Bank NV

PART A
CONTRACTUAL TERMS, LISTING AND RATING

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 29 June 2009 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of a combination of these Final Terms and the Base Prospectus [and the supplemental Base Prospectus dated [•]]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at the registered office of the Issuer and copies may be obtained from the registered office of the Issuer.

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [current date] and [original date] [and the supplemental Base Prospectus dated [•]. [The Base Prospectus [and the supplemental Base Prospectus] are available for viewing at the registered office of the Issuer and copies may be obtained from the registered office of the Issuer.]

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risk and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition. Prospective purchasers should conduct their own investigations and, in deciding whether or not to purchase Notes, prospective purchasers should form their

own views of the merits of an investment related to the [currencies, shares, etc.] based upon such investigations and not in reliance upon any information given in this document.

[Consider including the following paragraph for Commodity Linked Notes, Currency Linked Notes, Equity Linked Notes, Index Linked Notes and Credit Linked Notes]

[No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms, or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer.

By investing in the Notes each investor represents that:

(a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or any Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or any Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.

(b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and the risks of the investment in the Notes. It is also capable of assuming, and assumes, the risks of the investment in the Notes.

(c) Status of Parties. None of the Issuer or any Dealer is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1.	(i)	Series Number:	[ ]
	(ii)	[Tranche Number:	[ ] *(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)]*
2.	Status of Notes:		[Senior/Subordinated/Class A Mezzanine/Class B Mezzanine/Class C Mezzanine/Class D Mezzanine/Class E

		Mezzanine/Class F Mezzanine/Class G Mezzanine/Class H Mezzanine Notes]
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	(i) [Series:]	[ ]
	(ii) [Tranche:	[ ]]
5.	[Issue Price:]	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6.	Specified Denominations	[ ]
7.	(i) Issue Date:	[ ]
	(ii) [Interest Commencement Date (if different from the Issue Date):	[ ]]
8.	Maturity Date:	*[[Fixed Rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year] [the "Scheduled Maturity Date"] [subject as provided in Condition 12(d)] [,/and] [Condition 12(e)] [and] [Condition 12(f)] (Include for Credit Linked Notes but include as applicable: see below)]*
9.	Interest Basis	[[ ] per cent. Fixed Rate] [[specify reference rate] ± [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Equity Linked Interest] [Currency Linked Interest] [non-interest bearing] [specify other] *(further particulars specified below)*
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Equity Linked Redemption] [Credit Linked]

		[Currency Linked Redemption] [Commodity Linked] [Dual Currency] [Partly Paid] [Instalment] [specify other]
11.	Change of Interest Basis or Redemption/Payment Basis:	
12.	Put/Call Options:	[Investor Put] [Issuer Call] *[further particulars specified below)]*
13.	Tax Gross-Up:	[Condition 22(a) applicable]/[Condition 22(b) applicable] *(N.B. Only one of Condition 22(a) and 22(b) should be specified as applicable. If Condition 22(a) is specified as applicable, Condition 7(b) will be applicable. If Condition 22(b) is specified as applicable, Condition 7(b) will not be applicable)*
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i)	Rate[s] of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/ monthly] in arrear] (if payable other than annually, consider amending Condition 6).
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date *(NB: This will need to be amended in the case of long or short coupons)*
	(iii)	Fixed Coupon Amount[s]:	[ ] per [ ] in nominal amount
	(iv)	Broken Amount[s]:	*[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]*

(v)	Day Count Fraction (subject as may be provided in paragraph 30):	[1/1, Actual/Actual, Actual/Actual (ISDA), Act/Act, Act/Act (ISDA)] [Actual/Actual (ICMA), Act/Act (ICMA)] [Actual/365 (Fixed), Act/365 (Fixed), A/365 (Fixed), A/365F] [Actual/360, Act/360, A/360] [30/360, 360/360, Bond Basis] [30E/360, Eurobond Basis] [30E/360 (ISDA)]
(vi)	Calculation Agent responsible for calculating the Fixed Coupon or Broken Amount:	[ ]
(vii)	Determination Date(s):	[ ] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*] (*NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration)* (*NB: Only relevant where Fixed Day Count Fraction is Actual/Actual (ICMA))*
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/give details]

16.	Floating Rate Note Provisions	[Applicable/Not Applicable]
(i)	Specified Period(s)/ Specified Interest Payment Dates:	[ ]
(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
(iii)	Additional Business Centre(s):	[ ]
(iv)	Manner in which the Rate(s) of Interest and Interest Amount(s) is/are to be determined:	[Screen Rate Determination/ISDA Determination/specify other (give details)]
(v)	Party responsible for calculating the Rate(s) of	[ ]

Interest and Interest Amount(s):

(vi) Screen Rate Determination:

– Reference Rate: [ ]
(Either LIBOR, EURIBOR or other, although additional information is required if other – including any amendment to the fall back provisions in the Agency Agreement)

– Interest Determination Date(s): [ ]

(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)

– Relevant Screen Page: [ ]

(in the case of EURIBOR, if not Telerate Page 248, ensure it is a page which shows a composite rate)

(vii) ISDA Determination:

– Floating Rate Option: [ ]

– Designated Maturity: [ ]

– Reset Date: [ ]

(viii) Margin(s): [+/−] [ ] per cent. per annum

(ix) Minimum Rate of Interest: [ ] per cent. per annum

(x) Maximum Rate of Interest: [ ] per cent. per annum

(xi) Day Count Fraction: [1/1, Actual/Actual, Actual/Actual (ISDA), Act/Act, Act/Act (ISDA)]

[Actual/Actual (ICMA), Act/Act (ICMA)]

[Actual/365 (Fixed), Act/365 (Fixed), A/365 (Fixed), A/365F]

[Actual/360, Act/360, A/360]

[30/360 or 360/360 or Bond Basis]

[30E/360, Eurobond Basis]

		[30E/360 (ISDA)]
(xii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
17.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
(i)	Accrual Yield:	[ ] per cent. per annum
(ii)	Reference Price:	[ ]
(iii)	Any other formula/basis of determining amount payable:	[ ]
(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7(e)(iii) and 7(k) apply/specify other] *(Consider applicable day count fraction if not U.S. dollar denominated)*
18.	Index Linked Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(i)	Formula for calculating interest rate including provisions for determining Coupon where calculation by reference to Index/Indices is impossible or impracticable and other back up provisions:	[*give or annex details*]
(ii)	Whether the Notes relate to a basket of indices or a single index, the identity of the relevant Index/Indices and details of the relevant sponsors:	[Basket of Indices/Single Index] *[(Give or annex details)]* [The Index is a Designated Multi-Exchange Index [and the X Percentage [applies/does not apply] in relation to such Index.]

		(N.B. Designated Multi-Exchange Index only applies in relation to the Euro Stoxx Index unless otherwise specifically agreed)
(iii)	Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 7:	[ ]
(iv)	Specified Period(s)/ Specified Interest Payment Dates:	[ ]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other (*give details*)]
(vi)	Additional Business Centre(s):	[ ]
(vii)	Minimum Rate of Interest:	[ ] per cent. per annum
(viii)	Maximum Rate of Interest:	[ ] per cent. per annum
(ix)	Day Count Fraction:	[1/1, Actual/Actual, Actual/Actual (ISDA), Act/Act, Act/Act (ISDA)] [Actual/Actual (ICMA), Act/Act (ICMA)] [Actual/365 (Fixed), Act/365 (Fixed), A/365 (Fixed), A/365F] [Actual/360, Act/360, A/360] [30/360 or 360/360 or Bond Basis] [30E/360, Eurobond Basis] [30E/360 (ISDA)]
(x)	Exchange(s):	[ ]
(xi)	Related Exchange(s):	[/All Exchanges]
(xii)	Valuation Date(s):	[ ]
(xiii)	Valuation Time:	[Condition 9(c) applies/other]
(xiv)	Strike Price:	[ ]
(xv)	Disrupted Day:	[Applicable/Not Applicable] [*If Applicable consider provisions for calculation of the Reference Price if a Disrupted Day occurs included in Condition*

		9(c) and if not appropriate insert appropriate provisions]
(xvi)	Multiplier for each Index comprising the basket:	[*Insert details*/Not Applicable]
(xvii)	Correction of Index Levels:	Correction of Index Levels [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction]. (*If Correction of Index Levels does not apply, delete the following sub paragraph*)
(xviii)	Correction Cut-Off Date:	[ ] Business Days prior to each Interest Payment Date.
(xix)	Trade Date	[ ]
(xx)	Other terms or special conditions:	[ ]

19. Equity Linked Interest Note Provisions [Applicable/Not Applicable]

(*If not applicable, delete remaining sub-paragraphs of this paragraph*)

(i)	Formula for calculating interest rate including back up provisions:	[*Give or annex details*]
(ii)	Whether the Notes relate to a Underlying Equity] basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities):	[Basket of Underlying Equities/Single [*Give or annex details*]
(iii)	Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 8:	[ ]
(iv)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
(vi)	Additional Business Day Centre(s):	[ ]
(vii)	Minimum Rate of Interest:	[ ]

(viii)	Maximum Rate of Interest:	[ ]
(ix)	Day Count Fraction:	[ ]
(x)	Exchange(s):	[ ]
(xi)	Related Exchange(s):	[/All Exchanges]
(xii)	Potential Adjustment Events:	[Applicable/Not Applicable]
(xiii)	De-listing, Merger Event, Nationalisation and Insolvency:	[Applicable/Not Applicable]
(xiv)	Tender Offer:	[Applicable/Not Applicable]
(xv)	Valuation Date(s):	[ ]
(xvi)	Valuation Time:	[Condition 10(e) applies/*other*]
(xvii)	Strike Price:	[ ]
(xviii)	Exchange Rate:	[Applicable/Not Applicable] [*Insert details*]
(xix)	Disrupted Day:	[Applicable/Not Applicable] [*If Applicable consider provisions for calculation of the Reference Price if a Disrupted Day occurs included in Condition 10(e) and if not appropriate insert appropriate provisions*]
(xx)	Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 8(b)):	[*Insert details*/Not Applicable]
(xxi)	Correction of Share Prices:	Correction of Share Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction]. (*If Correction of Share Prices does not apply, delete the following sub paragraph*)
(xxii)	Correction Cut-Off Date:	[ ] Business Days prior to each Interest Payment Date.
(xxiii)	Trade Date:	[ ]
(xxiv)	Other terms or special conditions:	[ ]

20.	Commodity Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Relevant commodity or commodities:	[ ]
	(ii)	Formula for calculating interest rate including back up provisions:	[*Give or annex details*]
	(iii)	Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[ ]
	(iv)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(v)	Business Day Convention: Day Convention/*specify*	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(vi)	Additional Business Day Centre(s):	[ ]
	(vii)	Minimum Rate of Interest:	[ ]
	(viii)	Maximum Rate of Interest:	[ ]
	(ix)	Day Count Fraction:	[ ]
	(x)	Other terms or special conditions:	[ ]
21.	Currency Linked Interest Note Provisions *paragraphs*		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Relevant Currency:	[ ]
	(ii)	Formula for calculating interest rate including back up provisions:	[*Give or annex details*]
	(iii)	Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[ ]
	(iv)	Specified Period(s)/Specified Interest Payment Dates:	[ ]

(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
(vi)	Additional Business Day Centre(s):	[ ]
(vii)	Minimum Rate of Interest:	[ ]
(viii)	Maximum Rate of Interest:	[ ]
(ix)	Day Count Fraction:	[ ]
(x)	Other terms or special conditions:	[ ]

22.	Dual Currency Note Provisions	[Applicable/Not Applicable] [If not applicable, delete the remaining subparagraphs of this paragraph]
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[ ]
(iii)	Provisions applicable where *disruption or* calculation by reference to *provision*] Rate of Exchange impossible or impracticable:	[*Need to include a description of market* *settlement disruption events and adjustment*
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

23.	Additional Disruption Events (*applicable to Index Linked applicable to Interest Notes and Equity or Equity Linked Interest Notes*]	[Applicable/Not Applicable] [*Additional Disruption Events are only* *certain types of Index Linked Interest Notes Linked Interest Notes only*): (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) [Change in Law] [Hedging Disruption] [Increased Cost of Hedging] [Increased Cost of Stock Borrow]

[Insolvency Filing]

(*NB: Only applicable in the case of Equity Linked Interest Notes*)

[Loss of Stock Borrow]

[The Maximum Stock Loan Rate in respect of [specify in relation to each Underlying Equity/Security] is [ ].

(*NB: Only applicable if Loss of Stock Borrow is applicable*)

[The Initial Stock Loan rate in respect of [specify in relation to each Underlying Equity/Security]

(*NB: Only applicable if Increased Cost of Stock Borrow is applicable*)

PROVISIONS RELATING TO REDEMPTION

24. Issuer Call [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph*)

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount: [ ] per Note of [ ] Specified Denomination

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [ ]

(b) Maximum Redemption Amount: [ ]

(iv) Notice period (if other than as set out in the Conditions): [ ]

25. Investor Put [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph*)

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount: [ ] per Note of [ ] Specified Denomination

(iii) Notice period (if other than as set out in the Conditions): [ ]

(*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*]

26. Final Redemption Amount of each Note: [[ ] per Note of [ ] Specified Denomination/ *specify other*/see Appendix]

(***NB. If the Final Redemption Amount is less than 100 per cent. of the nominal value of the Note, then the requirements of Annex XII to the Prospectus Directive Regulation will apply.)***

27. Early Redemption Amount:

Note payable on redemption for taxation reasons or on event of default or on an illegality (or, in the case of Index Linked Notes, following an Index Adjustment Event in accordance with Condition 9(b)(ii)(b) or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 10(b)(ii)(b) or, in the case of Index Linked Notes or Equity Linked Notes, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event, and/or the method of calculating the same (**required if Early Redemption Amount different from that set out in Condition 7(e)**):

[ ] [*(Consider including the wording below in the case of Index Linked Notes, following an Index Adjustment Event in accordance with Condition 9(b)(ii)(b) or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 10(b)(ii)(b) or, in the case of Index Linked Notes or Equity Linked Notes, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merge Event*] [Such amount(s) determined by the Calculation Agent which shall represent the fair market value of each Note on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Calculation Agent in its sole and absolute discretion. For the purposes hereof:

(i) the references to "together (if appropriate) with interest accrued to (but excluding) the date of redemption" shall be deemed to be deleted from each of Condition 7(b) and Condition 7(h); and

(ii) the references to "together with accrued interest (if any) thereon" shall be deemed to be deleted from Condition 14.]

28. Currency Linked Redemption Notes: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Relevant Currency: [ ]

(ii) Calculation Agent responsible for making calculations pursuant to Condition 6: [ ]

(iii) Relevant provisions for determining amount of principal payable: [ ]

29. Index Linked Redemption Notes: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Whether the Notes relate to a basket of indices or a single index, the identity of the relevant Index/Indices and details of the relevant Index [and sponsors: relation to [Basket of Indices/Single Index]

[(*Give or annex details*)

[The Index is a Designated Multi-Exchange

the X Percentage [applies/does not apply] in

Index.]

(*N.B. Designated Multi-Exchange Index only applies in relation to the Euro Stoxx Index unless otherwise specifically agreed*)

(ii) Calculation Agent responsible for making calculations pursuant to Condition 7: [ ]

(iii) Exchange(s): [ ]

(iv) Related Exchange(s): [/All Exchanges]]

(v) Redemption Amount: [*Express per lowest Specified Denomination*/Not Applicable]

[if Not Applicable: [Call Index Linked redemption Notes/Put Index Linked Redemption Notes]]

(vi) Valuation Date: [ ]

(vii) Valuation Time: [Condition 9(c) applies/*other*]

	(viii)	Strike Price:	[ ]
	(ix)	Disrupted Day:	[Applicable/Not Applicable] [If Applicable consider provisions for calculation of the Reference Price if a Disrupted Day occurs included in Condition 9(c) and if not appropriate insert appropriate provisions]
	(x)	Multiplier for each Index comprising the basket:	[*Insert details*/Not Applicable]
	(xi)	Correction of Index Levels:	Correction of Index Levels [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction]. (*If Correction of Index Levels does not apply, delete the following sub paragraph*)
	(xii)	Correction Cut-Off Date:	[ ] Business Days prior to the Maturity Date.
	(xiii)	Trade Date	[ ]
	(xiv)	Other terms or special conditions:	[ ]
30.	Equity Linked Redemption Notes:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities):	[Basket of Underlying Equities/Single Underlying Equity] [(*Give or annex details*)]
	(ii)	Whether redemption of the Notes will be by (a) Cash Settlement or (b) Physical Delivery or (c) Cash Settlement and/or Physical Delivery:	[Cash Settlement/Physical Delivery/Cash Settlement and/or Physical Delivery] (*If Cash Settlement and/or Physical Delivery specified, specify details for determining in what circumstances Cash Settlement or Physical Delivery will apply*)
	(iii)	Calculation Agent responsible for making calculations pursuant to Condition 10:	[ ]

(iv)	Exchange:	[ ]
(v)	Related Exchange(s):	[/All Exchanges]
(vi)	Potential Adjustment Events:	[Applicable/Not Applicable]
(vii)	De-listing, Merger Event, Nationalisation and Insolvency:	[Applicable/Not Applicable]
(viii)	Tender Offer:	[Applicable/Not Applicable]
(ix)	Redemption Amount:	[*Express per lowest Specified Denomination*/Not Applicable]
	[If Not Applicable:	[Call Equity Linked Redemption Notes/Put Equity Linked Redemption Notes]]
(x)	Valuation Date:	[ ]
(xi)	Valuation Time:	[Condition 10(e) applies/*other*]
(xii)	Strike Price:	[ ]
(xiii)	Exchange Rate:	[Applicable/Not Applicable] [*Insert details*]
(xiv)	Disrupted Day:	[Applicable/Not Applicable] [*If Applicable consider provisions for calculation of the Reference Price if a Disrupted Day occurs included in Condition 10(e) and if not appropriate insert appropriate provisions*]
(xv)	Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 10(b)):	[*Insert details*/Not Applicable]
(xvi)	Correction of Share Prices, apply and the Index Levels or Official Reference Price shall be calculated without regard to any Settlement Prices:	Correction of Share Prices [applies/does not subsequently published correction]. (*If Correction of Share Prices does not apply, delete the following sub paragraph*)
(xvii)	Correction Cut-Off Date:	[ ] Business Days prior to the Maturity Date.
(xviii)	Trade Date:	[ ]
(xix)	Relevant Assets:	[ ]

(xx)	Asset Amount:	[*Express per lowest Specified Denomination*]
(xxi)	Cut-Off Date:	[ ]
(xxii)	Delivery provisions for Asset Amount (including details of who is to make such delivery):	[ ]
(xxiii)	Failure to deliver due to Illiquidity:	[Applicable/Not Applicable] (*NB: Only applicable to certain types of Equity Linked Redemption Notes*).
(xxiv)	Other terms or special conditions:	[ ]
31.	Additional Disruption Events (*applicable to Index Linked Redemption Notes and Equity applicable to certain Linked Redemption Notes only*): *Equity Linked*	[Applicable/Not Applicable] [*Additional Disruption events are only* *types of Index Linked Redemption Notes or* *redemption Notes*] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) [Change in Law] [Hedging Disruption] [Increased Cost of Hedging] [Increased Cost of Stock Borrow] [Insolvency Filing] (*NB: Only applicable in the case of Equity Linked Redemption Notes*) [Loss of Stock Borrow] [The Maximum Stock Loan Rate in respect of [*specify in relation to each Underlying Equity/Security*] is [ ]. (*NB: Only applicable if Loss of Stock Borrow is applicable*) [The Initial Stock Loan rate in respect of [*specify in relation to each Underlying Equity/Security*] (*NB: Only applicable if Increased Cost of Stock Borrow is applicable*)

32.	Credit Linked Notes:		[Applicable/Not Applicable]
	[NB: Consider whether definitions included in Conditions are up to date]		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	General		
	(i)	Redemption Amount:	[*Express per Specified Denomination*]
	(ii)	Trade Date:	[ ]
	(iii)	Scheduled Termination Date:	[The day falling five Business Days prior to the Scheduled Maturity Date/*specify other*]
	(iv)	Calculation Agent responsible for making calculations and determinations pursuant to Condition 10:	[ ]
	(v)	Calculation Agent City:	[ ]
	Credit Provisions		
	(vi)	Reference Entity(ies):	[ ]
	(vii)	Reference Obligation(s):	[ ]
		[The obligation[s] identified as follows:	
		Primary Obligor:	[ ]
		Guarantor:	[ ]
		Maturity:	[ ]
		Coupon:	[ ]
		CUSIP/ISIN:	[ ]]
	(viii)	All Guarantees:	[Applicable/Not Applicable]
			– Provisions relating to Qualifying Guarantee and Underlying Obligation: Condition 12(n) [Applicable/Not Applicable]
	(ix)	Credit Events:	[Bankruptcy]
			[Failure to Pay]
			[Grace Period Extension (Condition 12(e)) [Applicable/Not Applicable]

[If Applicable:

Grace Period: [ ]]

[Obligation Acceleration]

[Obligation Default]

[Repudiation/Moratorium]

[Maturity Date Extension: Condition 12(f):

[Applicable/Not Applicable]]

[Restructuring]

– Provisions relating to Restructuring Credit Event: Condition 12(k) [Applicable/Not Applicable]

– Provisions relating to Multiple Holder Obligation: Condition 12(l) [Applicable/Not Applicable]

– [Restructuring Maturity Limitation and Fully Transferable Obligation [Applicable/Not Applicable]]

– [Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation [Applicable/Not Applicable]]

[*other*]

Default Requirement: [ ]

Payment Requirement: [ ]

(x) Conditions to Settlement: Notice of Publicly Available Information [Applicable/Not Applicable]

[If Applicable:

Public Source(s): [ ]]

(*If other than in the definition in Condition 12(j)*.) Specified Number: [ ]]

(*If none specified, then it is deemed to be two*.)

(xi) Obligation(s):

Obligation Category [*select one only*]: [Payment]
[Borrowed Money]

		[Reference Obligations Only] [Bond] [Loan] [Bond or Loan]
	Obligation Characteristics [*select all of which apply*]:	[Not Subordinated] [Specified Currency: [specify currency] [Standard Specified Currencies]] [Not Sovereign Lender] [Not Domestic Currency:] [Domestic Currency means: [specify currency]] [Not Domestic Law] [Listed] [Not Domestic Issuance]
	Additional Obligation(s):	[ ]
(xii)	Provisions relating to Monoline Insurer to Reference Entity:	Condition 12(m) [Applicable/Not Applicable]
(xiii)	Excluded Obligation(s):	[ ]
(xiv)	Whether redemption of the [ ] Notes will be by (a) Cash Settlement or (b) Physical Delivery:	[Cash Settlement/Physical Delivery]
(xv)	Accrual of Interest upon Credit Event:	[Applicable/Not Applicable]
(xvi)	Merger Event: Condition 12(i):	[Applicable/Not Applicable]
	If Applicable: Merger Event Redemption Date:	[ ]
(xvii)	[Unwind Costs:	[Standard Unwind Costs/other/Not Applicable]

Terms relating to Cash Settlement

(xviii)	Credit Event Redemption Amount:	[*Express per Specified Denomination*]
(xix)	Credit Event Redemption Date:	[ ] Business Days

(xx)	Valuation Date:	[Single Valuation Date: [ ] Business Days] [Multiple Valuation Dates: [ ] Business Days; and each [ ] Business Days thereafter [Number of Valuation Dates: [ ]]
(xxi)	Valuation Time:	[ ]
(xxii)	Quotation Method:	[Bid/Offer/Mid-market]
(xxiii)	Quotation Amount:	[[ ]/Representative Amount]
(xxiv)	[Minimum Quotation Amount:	[ ]]
(xxv)	Quotation Dealers:	[ ]
(xxvi)	Quotations:	[Include Accrued Interest/Exclude Accrued Interest]
(xxvii)	Valuation Method:	[Market/Highest] [Average Market/Highest/Average Highest] [Blended Market/Blended Highest] [Average Blended Market/Average Blended Highest]
(xxviii)	Other terms or special conditions:	[ ]

Terms relating to Physical Delivery

(xxix)	Physical Settlement Period:	[ ] Business Days
(xxx)	Asset Amount:	[Include Accrued Interest/Exclude Accrued Interest]
(xxxi)	Settlement Currency:	[ ]
(xxxii)	Deliverable Obligations:	
	Deliverable Obligation Category [select one only]:	[Payment] [Borrowed Money] [Reference Obligations Only] [Bond]

	[Loan] [Bond or Loan]
Deliverable Obligation Characteristics [select all of which apply]:	[Not Subordinated] [Specified Currency: [*specify currency*] [Standard Specified Currencies] [Not Sovereign Lender] [Not Domestic Currency] [Domestic Currency means: [*specify currency*]] [Not Domestic Law] [Listed] [Not Contingent] [Not Domestic Issuance] [Assignable Loan] [Consent Required Loan] [Direct Loan Participation] [Qualifying Participation Seller: – *insert details*] [Transferable] [Maximum Maturity: [ ]] [Accelerated or Matured] [Not Bearer]
Additional Deliverable Obligation(s):	[ ]
(xxxiii) Excluded Deliverable Obligation(s):	[ ]
(xxxiv) Indicative Quotations:	[Applicable/Not Applicable]
(xxxv) Cut-Off Date:	[ ]
(xxxvi) Delivery provisions for Asset Amount (including details of who is to make such delivery) if different from Terms and Conditions:	[ ]

	(xxxvii) Other terms or special conditions:	[ ]
33.	Commodity Linked Redemption Notes:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Relevant provisions for determining amount of principal payable and/or assets deliverable:	[ ]
	(ii) Calculation Agent responsible for making calculations:	[ ]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

34.	Form of Notes:	[Bearer/Registered] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes in accordance with the provisions set out under "Summary of Provisions Relating to Notes While in Global Form" in the Base Prospectus.] [Temporary Global Note exchangeable for definitive Notes upon specified number of days notice]
35.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 16 (iii), 18 (vi), 19 (vi), 20 (vi)* and 21 (vi) *relate*)
36.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No (*If yes, give details*)
37.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and *and/or* date on which each payment is to *Partly Paid* be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*] [*NB: a new form of Temporary Global Note Permanent Global Note may be required for* issues*)*
38.	Details relating to Instalment Notes:	

	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
39.	If the Specified Currency is the currency of a member state of the European Union, whether a Redenomination Clause is to be included:	[Redenomination [not] applicable] (*If Redenomination is applicable, specify the terms of the Redenomination in an Appendix to the Final Terms*)
40.	Consolidation provisions:	[Not Applicable/The provisions annexed to these Final Terms apply]
41.	Other final terms:	[Not Applicable/*give details*] (When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)
42.	Series Collateral:	[Obligations of KBC Bank NV – specify details] [Obligations of Fairport Capital Investments p.l.c. – specify details (including the maturity date and nominal amount)] [Other Eligible Assets comprising obligations of more than 5 obligors and where no obligor accounts for more than 20% of such obligations, with a nominal amount of €[●]] If Eligible Assets comprise equity securities that are admitted to trading on a regulated or equivalent market, specify: (i) a description of the securities; (ii) a description of the market on which they are traded including its date of establishment, how price information is published, an indication of daily trading volumes, information as to the standing of the market in the country and the name of the market's regulatory authority; and (iii) the frequency with which prices of the relevant securities, are published.
43.	Security (order of priorities):	The Trustee shall apply all moneys received by it under the Trust Deed and the Series Pledge Agreement in connection with the realisation or enforcement of the Series Security constituted by the Trust Deed and

		the Series Pledge Agreement in the following order of priorities: [Counterparty Priority/Pari Passu Ranking/Noteholder Priority/Other Priority]
44.	Swap Agreement:	[Under an ISDA Master Agreement dated [•] and a confirmation thereto with an effective date of the Issue Date made between the Issuer and KBC Bank NV as Swap Counterparty, the Issuer will pay to the Swap Counterparty [[an amount equal to the net subscription moneys for the Notes payable to the Issuer] and sums equal to [interest and principal payable] in respect of the Series Collateral and the Swap Counterparty will pay to the Issuer [an amount equal to the net sum payable by the Issuer for the purchase of the Series Collateral and sums equal to the interest payable to the Noteholders under the Notes and the Redemption Amount]] [set out other/additional payment provisions]. Except as stated in the Base Prospectus, the Swap Agreement will terminate on the Maturity Date. [The Swap Agreement is governed by English law.]

DISTRIBUTION

45.	(i) If syndicated, names [and addresses]** of Managers [and underwriting commitments]**:	[Not Applicable/*give names [and addresses and underwriting commitments*]**] (*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*) **
	(ii) Date of Subscription Agreement:**	[ ]**
	(iii) Stabilising Manager (if any):	[Not Applicable/*give name*]
46.	If non-syndicated, name [and *address*]** of relevant Dealer:	[Not Applicable/*give name [and address]**]*
47.	Total commission and concession:**	[ ] per cent. of the Aggregate Nominal Amount**
48.	Additional selling restrictions:	[Not Applicable/*give details*]

[**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €40,000,000,000 Programme for the issue of Notes of Arcade Finance p.l.c.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] (the "**Reference Information**") has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading]. None of the Trustee, Agents, Portfolio Manager, Arranger or Dealers accept responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

Arcade Finance p.l.c.

By: _____

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING:

(i)	Listing:	[Irish Stock Exchange /other (specify)/None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original securities are already admitted to trading*.) **
(iii)	Estimate of total expenses related to admission to trading:*	[ ]*

2. RATINGS: [The Notes to be issued have not been rated.]

3. NOTIFICATION:

The Irish Financial Services Regulatory Authority [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive and Commission Regulation (EC) No 809/2004.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE:

[Save for any fees payable to the [Dealers/Managers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES:**

(i)	[Reasons for the offer:	[ ]] (*See "Use of Proceeds" wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here*.)**
(ii)	[Estimated net proceeds:	[ ]] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding*.)**
(iii)	[Estimated total expenses:	[ ] [*Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses"*.]**]

(*N.B.: If Notes are Derivative Securities**** to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required*.)

6. YIELD: *Fixed Rate Notes only*)

Indication of yield: [ ]

[Calculated as [*include details of method of calculation in summary form*] on the Issue Date.]**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. HISTORIC INTEREST RATES: (*Floating Rate Notes only*)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

8. PERFORMANCE OF [INDEX/BASKET OF INDICES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE [INDEX/BASKET OF INDICES]: (*Index-Linked Notes only*)***

[*Need to include details of where past and future performance and volatility of the index/formula can be obtained] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident*.]***

[*Need to include the name of [the/each] Index and a description if composed by the Issuer and if [the/each] Index is not composed by the Issuer need to include details of where the information about [the/each] Index can be obtained*.]

9. PERFORMANCE OF [THE EQUITY/BASKET OF EQUITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE EQUITY/BASKET OF EQUITIES]] (*Equity Linked Notes only*)

[*Need to include details of where past and future performance and volatility of the [equity/basket of equities] can be obtained.][Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident*.]***

10. PERFORMANCE OF [RATE[S] OF EXCHANGE/FORMULA/CURRENCIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE [RATE[S] OF EXCHANGE/FORMULA/CURRENCIES]] (*Currency Linked Notes only*)

[*Need to include details of where past and future performance and volatility of the [relevant rates/formula/currencies] can be obtained.][Need to include a clear*

and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

11. PERFORMANCE OF [THE COMMODITY/BASKET OF COMMODITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE COMMODITY/BASKET OF COMMODITIES]] (*Commodity Linked Notes only*)

[*Need to include details of where past and future performance and volatility of [the commodity/basket of commodities] can be obtained.][Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident*.]***

12. INFORMATION IN RELATION TO THE REFERENCE ENTITY, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING THE REFERENCE ENTITY] (*Credit Linked Notes only*)

[*Need to include details of the Reference Entity and of where information on the Reference Entity can be obtained.][Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident*.]***

13. [TERMS AND CONDITIONS OF THE OFFER:] (*Delete if not applicable*)

Conditions to which the offer is subject:	[ ]
The time period, including any possible amendments, during which the offer will be open and description of the application process:	[ ]
Details of the minimum and/or maximum amount of application:[2]	[ ]
Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	[ ]
Details of method and time limits for paying up and delivering the Notes:	[ ]
Manner and date in which results of the offer are to be made public:	[ ]
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[ ]
Categories of potential investors to which the Notes are offered[3]:	[ ]

[2] Whether in number of securities or aggregate amount to invest

[*For example:*

"Legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities.

Any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts."]

Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made:	[ ]
Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	[ ]

14. OPERATIONAL INFORMATION:

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
	(*Insert here any other relevant codes such as CUSIP and CINS codes*)	

Notes:

* **Delete if the minimum denomination is less than €50,000**

** **Delete if the minimum denomination is €50,000**

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[3] If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.

*** **Delete if the minimum denomination is €50,000 (or its equivalent in the relevant currency as at the date of issue) and if the Notes are not Derivative Securities****

**** **Derivative Securities are Notes (i) where the Final Redemption Amount of such Notes is other than 100 per cent. of the nominal value of the Notes and (ii) to which the requirements of Annex XII to the Prospectus Directive Regulation will apply.**

TAXATION

The following is a general discussion of certain aspects of the anticipated Irish, Belgian and Luxembourg tax treatment of the Issuer and/or the holders of Notes. The discussion is based on laws, regulations, rulings and decisions (and interpretations thereof) currently in effect, all of which are subject to change. Any such change may have retroactive effect. The discussion is intended for general information only, and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase Notes.

Prospective investors should consult their own professional advisers concerning the possible tax consequences of buying, holding or selling any Notes under the applicable laws of their country of citizenship, residence or domicile.

IRELAND

Taxation of the Issuer – Corporation Tax

In general, Irish companies must pay corporation tax on their income at the rate of 12.5 per cent. in relation to trading income and at the rate of 25 per cent. in relation to income that is not income from a trade. However, section 110 of the Irish Taxes Consolidation Act of 1997 of Ireland, as amended ("**TCA 1997**") provides for special treatment in relation to qualifying companies. A qualifying company means a company:

(a) which is resident in Ireland;

(b) which either acquires qualifying assets from a person, holds or manages (or both holds and manages) qualifying assets as a result of an arrangement with another person, or has entered into a legally enforceable arrangement with another person which itself constitutes a qualifying asset;

(c) which carries on in Ireland a business of holding qualifying assets or managing qualifying assets or both;

(d) which, apart from activities ancillary to that business, carries on no other activities;

(e) which has notified an authorised officer of the Revenue Commissioners of Ireland in the prescribed format that it intends to be such a qualifying company; and

(f) the market value of all qualifying assets held or managed, or held and managed, by the company or the market value of qualifying assets in respect of which the company has entered into legally enforceable arrangements is not less than EUR 10,000,000 on the day on which the qualifying assets are first acquired, first held, or a legally enforceable arrangement in respect of the qualifying assets is entered into (which is itself a qualifying asset),

but a company shall not be a qualifying company if any transaction is carried out by it otherwise than by way of a bargain made at arms length apart from where that transaction is the payment of consideration for the use of principal (other than where that consideration is paid to certain companies within the charge of Irish corporation tax as part of a scheme of tax avoidance).

A qualifying asset is a financial asset or an interest in a financial asset.

If a company is a qualifying company for the purpose of section 110 TCA 1997 (and it is expected that the Issuer will be such a company), then profits arising from its activities shall be chargeable to corporation tax under Case III of Schedule D (which is applicable to non-trading income) at a rate of 25 per cent. However, for that purpose those profits shall be computed in accordance with the provisions applicable to Case I of the Schedule (which is applicable to trading income). On the basis that the Issuer is a qualifying company for the purpose of section 110 TCA 1997, and on the basis that the interest on the Notes:

(a) does not represent more than a reasonable commercial return on the principal outstanding and it is not dependant on the results of the company's business; or

(b) it is not paid to certain companies within the charge of Irish corporation tax as part of a scheme of tax avoidance, then

the interest in respect of the Notes issued will be deductible in determining the taxable profits of the Issuer.

Stamp Duty

If the Issuer is a qualifying company within the meaning of section 110 TCA 1997 (and it is expected that the Issuer will be such a qualifying company) no Irish stamp duty will be payable on either the issue or transfer of the Notes, provided that the money raised by the issue of the Notes is used in the course of the Issuer's business.

Taxation of holders of Notes - Income Tax

In general, persons who are resident in Ireland are liable to Irish taxation on their world-wide income whereas persons who are not resident in Ireland are only liable to Irish taxation on their Irish source income. All persons are under a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Revenue Commissioners of Ireland to issue or raise an assessment.

Interest paid and discounts realised on the Notes have an Irish source and therefore interest earned and discounts realised on such Notes will be regarded as Irish source income for the purposes of Irish tax. Accordingly, pursuant to general Irish tax rules, a non-Irish resident person in receipt of such income would be technically liable to Irish income tax (and levies if received by an individual) subject to the provisions of any applicable double tax treaty. Ireland has signed double tax treaties with 50 countries (see "*Withholding Taxes*" below) and the majority of them exempt interest (which sometimes includes discounts) from Irish tax when received by a resident of the other jurisdiction. Credit is available for any Irish tax withheld from income on account of the related income tax liability. Non-Irish resident companies, where the income is not attributable to a branch or agency of the company in Ireland, are subject to income tax at the standard rate. Therefore any withholding tax suffered should be equal to and in satisfaction of the full income tax liability. (Non-Irish resident companies operating in Ireland through a branch or agency of the company in Ireland to which the income is attributable would be subject to Irish corporation tax).

There is an exemption from Irish income tax under section 198 TCA 1997 in certain circumstances.

These circumstances include:

(a) where interest is paid by a qualifying company within the meaning of section 110 TCA 1997 to a person that is not resident in Ireland and that person is resident in an EU Member State (other than Ireland) or is a

resident of a territory that has signed a double tax treaty with Ireland, under the terms of that treaty;

(b) where interest is paid by a company in the ordinary course of its trade or business and the recipient of the interest is a company that is resident in an EU Member State (other than Ireland) or that is a resident of a territory with which Ireland has a double tax treaty that is in effect, under the terms of that treaty;

(c) where interest is payable by a company to a person that is not resident in Ireland and that is regarded as being resident in an EU Member State (other than Ireland) or is a resident of a territory that has signed a double tax treaty with Ireland, under the terms of that treaty, and the interest is exempt from withholding tax because it is payable on a quoted Eurobond (see "Withholding Taxes" below); and

(d) where discount arises on securities that are issued by a company in the ordinary course of its trade or business and the recipient is a person resident in an EU Member State (other then Ireland) or is a resident of a territory that has signed a double tax treaty with Ireland, under the terms of that treaty.

Interest and discounts realised on the Notes which do not fall within the above exemptions are within the charge to Irish income tax to the extent that a double tax treaty does not exempt the interest or discount, as the case may be. However it is understood that the Revenue Commissioners have, in the past, operated a practice (as a consequence of the absence of a collection mechanism rather than adopted policy) whereby no action will be taken to pursue any liability to such Irish tax in respect of persons who are regarded as not being resident in Ireland except where such persons:

(a) are chargeable in the name of a person (including a trustee) or in the name of an agent or branch in Ireland having the management or control of the interest; or

(b) seek to claim relief and/or repayment of tax deducted at source in respect of taxed income from Irish sources; or

(c) are chargeable to Irish corporation tax on the income of an Irish branch or agency or to income tax on the profits of a trade carried on in Ireland to which the interest is attributable.

There can be no assurance that the Revenue Commissioners will apply this practice in the case of the holders of Notes and, as mentioned above, there is a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Revenue Commissioners to issue or raise an assessment.

Withholding Taxes

In general, withholding tax at the rate of 20 per cent. must be deducted from payments of yearly interest that are within the charge to Irish tax, which would include such payments when made by an Irish company. However, section 64 TCA 1997 provides for the payment of interest in respect of quoted Eurobonds without deduction of tax in certain circumstances. A "quoted Eurobond" is defined in section 64 TCA 1997 as a security which:

(a) is issued by a company;

(b) is quoted on a recognised stock exchange (the Irish Stock Exchange is a recognised stock exchange for this purpose); and

(c) carries a right to interest.

There is no obligation to withhold tax on quoted Eurobonds where:

(a) the person by or through whom the payment is made is not in Ireland; or

(b) the payment is made by or through a person in Ireland, and:

  (i) the quoted Eurobond is held in a recognised clearing system (the Revenue Commissioners of Ireland have designated Euroclear and Clearstream, Luxembourg as recognised clearing systems); or

  (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made an appropriate declaration to this effect.

Notes which are listed on the Official List of the Irish Stock Exchange and cleared through Euroclear and/or Clearstream, Luxembourg will qualify as quoted Eurobonds and the payment of interest in respect of such Notes should be capable of being made without withholding tax, regardless of where the Noteholder is resident.

Separately, section 246 TCA 1997 ("**Section 246**") provides certain exemptions from this general obligation to withhold tax. Section 246 provides an exemption in respect of interest payments made by a qualifying company within the meaning of section 110 TCA 1997 to a person resident in a relevant territory except where that person is a company and the interest is paid to the company in connection with a trade or business carried on in Ireland by that company through a branch or agency. Also Section 246 provides an exemption in respect of interest payments made by a company in the ordinary course of business carried on by it to a company resident in a relevant territory except where the interest is paid to the company in connection with a trade or business carried on in Ireland by that company through a branch or agency. A relevant territory for this purpose is a Member State of the European Communities, other than Ireland, or not being such a Member State, a territory that has signed a double tax treaty with Ireland. As of the Closing Date, Ireland has signed a double tax treaty with each of Australia, Austria, Belgium, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Israel, India, Italy, Japan, Korea (Rep. of), Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, U.S.A., Vietnam and Zambia. New treaties with Argentina, Armenia, Belarus, Egypt, Singapore, Tunisia and Ukraine are in the course of being negotiated.

Discounts realised on the Notes will not be subject to Irish withholding tax.

Encashment Tax

Interest on any Note which qualifies for exemption from withholding tax on interest as a quoted Eurobond (see above) realised or collected by an agent in Ireland on behalf of any Noteholder will be subject to a withholding at the standard rate of Irish income tax (currently 20 per cent.). This is unless the beneficial owner of the Note that is entitled to the interest is not resident in Ireland for the purposes of Irish tax and makes a

declaration in the required form. This is provided that such interest is not deemed, under the provisions of Irish tax legislation, to be the income of another person that is resident in Ireland.

Capital Gains Tax

A holder of a Note will not be subject to Irish taxes on capital gains provided that such holder is neither resident nor ordinarily resident in Ireland and such holder does not have an enterprise, or an interest in an enterprise, which carries on business in Ireland through a branch or agency or a permanent establishment to which or to whom the Notes are attributable.

Capital Acquisitions Tax

If Notes are comprised in a gift or inheritance taken from an Irish resident or ordinarily resident disponer or if the disponer's successor is resident or ordinarily resident in Ireland, or if any Notes are regarded as property situate in Ireland, the disponer's successor (primarily), or the disponer, may be liable to Irish capital acquisitions tax.

For the purposes of capital acquisitions tax, under current legislation a non-Irish domiciled person will not be treated as resident or ordinarily resident in Ireland for the purposes of the applicable legislation except where that person has been resident in Ireland for the purposes of Irish tax for the 5 consecutive years of assessment immediately preceding the year of assessment in which the date of the gift or inheritance falls.

Value Added Tax

The provision of financial services is an exempt transaction for the purposes of Value Added Tax in Ireland ("**Irish VAT**") purposes. Accordingly, the Issuer should not be entitled to recover Irish VAT suffered. However, to the extent that income receivable by the Issuer is derived from non-EU sources, the Issuer may be entitled to recover a proportion of Irish VAT suffered. The Issuer will be required to account for Irish VAT on a "self supply" basis on certain services received from abroad which are deemed to have an Irish place of supply.

Implementation of the EU Directive on the Taxation of Savings Income

EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive") (see below under "*EU Directive on the Taxation of Savings Income*") has been enacted into Irish legislation. Where any person in the course of a business or profession carried on in Ireland makes an interest payment to, or secures an interest payment for the immediate benefit of, the beneficial owner of that interest, where that beneficial owner is an individual, that person must, in accordance with the methods prescribed in the legislation, establish the identity and residence of that beneficial owner. Where such a person makes such a payment to a "residual entity" then that interest payment is a "deemed interest payment" of the "residual entity" for the purpose of this legislation. A "residual entity", in relation to "deemed interest payments", must, in accordance with the methods prescribed in the legislation, establish the identity and residence of the beneficial owners of the interest payments received that are comprised in the "deemed interest payments".

"Residual entity" means a person or undertaking established in Ireland or in another Member State or in an "associated territory" to which an interest payment is made for the benefit of a beneficial owner that is an individual, unless that person or undertaking is within the charge to corporation tax or a tax corresponding to corporation tax, or it has, in the prescribed format for the purposes of this legislation, elected to be treated in

the same manner as an undertaking for collective investment in transferable securities within the meaning of the UCITS Directive 85/611/EEC, or it is such an entity or it is an equivalent entity established in an "associated territory", or it is a legal person (not being an individual) other than certain Finnish or Swedish legal persons that are excluded from the exemption from this definition in the EU Savings Directive.

Procedures relating to the reporting of details of payments of interest (or similar income) made by any person in the course of a business or profession carried on in Ireland, to beneficial owners that are individuals or to residual entities resident in another Member State or an "associated territory" and procedures relating to the reporting of details of deemed interest payments made by residual entities where the beneficial owner is an individual resident in another Member State or an "associated territory", apply since 1 July, 2005. For the purposes of these paragraphs "associated territory" means Aruba, Netherlands Antilles, Jersey, Gibraltar, Guernsey, Isle of Man, Anguilla, British Virgin Islands, Cayman Islands, Andorra, Liechtenstein, Monaco, San Marino, the Swiss Confederation, Montserrat and Turks and Caicos Islands.

LUXEMBOURG

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21st June, 2005 (the "**Laws**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3rd June, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per
cent. during the first three-year period starting 1st July, 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23rd December, 2005 (the "**Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes. Under the Law payments of interest or similar income made or ascribed by a

paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.]

BELGIUM

This summary is based on the Belgian tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Base Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

Income Tax and Withholding Tax on the interest of the Notes

For Belgian income tax purposes, the Notes are to be qualified as "fixed-income securities" as defined in article 2, par. 1, 8° of the Income Tax Code ("**ITC**"). Not only interest coupons but any sum paid by the Issuer in surplus of the Issue Price, whether or not prior to the stated maturity of the Notes, is interest for Belgian tax purposes.

Under present Belgian tax law, no Belgian withholding tax is due on the payment of principal or interest in respect of the Notes, Receipts or Coupons by the Issuer or by any non-Belgian paying agent. If, however, the Noteholder, Receiptholder or Couponholder is a Belgian individual subject to Belgian personal income tax and acquires and holds the Notes, Receipts or Coupons as a private investment, the interest must be declared in his Belgian tax return and will generally be taxed at a rate currently fixed at 15 per cent. (to be increased with local taxes). If the Noteholder, Receiptholder or Couponholder is a Belgian individual subject to Belgian personal income tax and acquires the Notes, Receipts or Coupons for professional purposes, the interest must be declared by the beneficiary and will be taxed at the Belgian personal income tax rates. If the Noteholder, Receiptholder or Couponholder is a Belgian company subject to Belgian corporate income tax or a Belgian branch of a foreign company subject to Belgian income tax on non-residents, the interest will, in general, be taxed at the normal rates of Belgian corporate income tax (currently 33.99 per cent.) or of the Belgian income tax on non-residents (currently also 33.99 per cent.). If a Noteholder, Receiptholder or Couponholder is a Belgian legal entity subject to the Belgian income tax on legal entities ("rechtspersonenbelasting"/"impôt des personnes morales") the payment of interest in respect of Notes, Receipts and Coupons is generally subject to Belgian withholding tax at a rate currently fixed at 15 per cent. which must be withheld by the receiving legal entity itself.

The payment of interest in respect of Notes, Receipts and Coupons by the Issuer through a Belgian paying agent is in principle subject to Belgian withholding tax (at a rate currently fixed at 15 per cent.), unless the Belgian paying agent is a credit institution, brokerage firm or clearing and settlement institution who pays the interest to a foreign professional intermediary within the meaning of article 261, par. 4 ITC.
Based on Belgian legislation, an exemption of withholding tax can be applied if inter alia:

(i) the Notes are held (as owner or usufructuary) by Noteholders who do not have their fiscal residence in Belgium and who do not use the Notes for carrying on a business in Belgium, and provided the Belgian paying agent is a credit institution, brokerage firm or clearing or settlement institution,

(ii) the Notes, other than Redemption Notes and Zero Coupon Notes, are held by a Belgian company subject to Belgian corporate income tax,

(iii) the Notes, other than Redemption Notes and Zero Coupon Notes, are held by non-residents who use the Notes for carrying on a business in Belgium through a permanent establishment.

In each case, the exemption of withholding tax is subject to the signing of a withholding tax certificate.

Income Tax on capital gains

Noteholders who do not have their fiscal residence in Belgium and who do not have a Belgian fixed base or permanent establishment to which the Notes are attributable, will not be liable for any Belgian income tax on capital gains.

Noteholders who are private individuals holding the Notes as a private investment and who have their fiscal residence in Belgium, and Noteholders who are subject to the Belgian income tax on legal entities, will not be liable for any income tax on capital gains. If however a private individual's capital gains arise from transactions going beyond the daily course of management of private property, the private individual will be subject to income tax at a rate of 33 per cent. (plus local taxes).

Other Noteholders who have their fiscal residence in Belgium or who use the Notes for carrying on a business in Belgium through a fixed base or permanent establishment will be taxable on capital gains realised at the occasion of the transfer of the Notes.

Transfer Tax and Stamp Duties

In general, Belgian tax on stock exchange transactions ("taks op de beursverrichtingen"/"tax sur les opérations de bourse") will be applicable on any secondary market transaction with respect to any Notes, if such transaction is either concluded or carried out in the Kingdom of Belgium, and if such transaction was made with the intervention of a professional intermediary. A separate tax is due from each of the seller and the purchaser, both collected by the professional intermediary. The applicable rate will be 0.07 per cent. Such tax will, however, be limited to a maximum amount of EUR 500 per taxable transaction and per party. The stamp duty will not be payable by exempt persons acting for their own account as defined in article 126/1, 2° of the Code of various rights and taxes ("Weboek diverse rechten en taksen"/"Code des droits et taxes divers"), including investors who are not Belgian residents (provided they confirm their non-resident status), professional intermediaries, insurance companies, collective investment institutions and some pension funds.

Furthermore, a Belgian stamp duty on the physical delivery of bearer securities ("taks op de aflevering van effecten aan toonder"/"tax sur les livraisons des titres au porteur") will be applicable at the rate of 0.60 per cent. if physical delivery of the Notes takes place as a result of a secondary market transaction made with the intervention of a Belgian professional intermediary, or in case of withdrawal of the Notes from a custody deposit with a Belgian credit institution, brokerage firm, property management company or the CIK ("Interprofessionele Effectendeposito – en Girokas/Caisse Interprofessionelle de Dépots et de Virements de Titres"). However, no tax is due in each of the following cases: (1) physical delivery of the Notes to a professional intermediary (within the meaning of article 2, 9° and 10° of the Law of 2 August 2002) established in Belgium, and (2) physical delivery of the Notes to a non-resident if this delivery takes place as a result of the withdrawal of the Notes from a custody deposit.

Gift, estate or inheritance tax

Except for the gift tax payable in the case of a gift by deed made in Belgium, no gift, estate or inheritance tax is due in Belgium in respect of Notes, Receipts or Coupons, unless a Noteholder, Receiptholder or Couponholder is resident in Belgium at the time of his death.

European Union Savings Directive – implementation in Belgium

In accordance with European Council Directive 2003/48/EC of 3rd June, 2003 on the taxation of savings income in the form of interest payments, and on the basis of the Belgian Law of 17th May, 2004 which implements this Directive into Belgian law, interest paid by a Belgian paying agent to or for the benefit of an individual resident in another EU Member State or in certain non-EU countries and territories which have agreed to adopt similar measures to those provided for under EC Council Directive 2003/48/EC, is subject to a withholding tax ("woonstaatheffing" /"prélèvement pour l'Etat de résidence") to be withheld by the Belgian paying agent. The rate of this withholding tax was initially 15%, increased to 20% as from 1st July, 2008, and will increase to 35% as from 1st July, 2011 onwards.

Article 5 of the Law of 17th May, 2004 provides that the withholding tax will not be levied if the beneficial owner presents to his paying agent a certificate drawn up in his name by the competent tax authority of his Member State of residence for tax purposes (art. 5 Law of 17th May, 2004, specifications given by the Royal Decree of 26th March, 2005).

The withholding tax system will apply for a transitional period prior to the implementation of a system of automatic communication to Member States of the European Union of information regarding such payments. Such transitional period will expire upon the execution of certain agreements relating to information exchange with certain non-EU countries. The Law of 17th May, 2004 provides for a possibility of ending the transitional period before the execution of these agreements.

EUROPEAN UNION SAVINGS TAX DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

Each Series of Bearer Notes will initially be represented by a Temporary Global Note, unless the relevant Final Terms specifies otherwise, in bearer form without Coupons, which will be deposited on behalf of the subscribers of the relevant Notes (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg with a common depositary (the "**Common Depositary**") for Euroclear and for Clearstream, Luxembourg on or about the issue date of the relevant Notes or (b) in the case of a Series intended to be cleared through a clearing system other than Euroclear or Clearstream, Luxembourg or delivered outside a clearing system as agreed between the Issuer, the Principal Paying Agent and the relevant Dealer(s). No interest will be payable in respect of a Temporary Global Note, except as provided below.

Upon the initial deposit of a Temporary Global Note with the Common Depositary or registration of Registered Notes in the name of any nominee for Euroclear or Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will be obliged to credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

The Temporary Global Note contains provisions which apply to the Bearer Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus.

Each Series of Notes in registered form may be represented (i) by one or more Global Certificates in registered form without Coupons, deposited on the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for Euroclear and Clearstream, Luxembourg or (ii) by Individual Certificates, as specified in the relevant Final Terms.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of such Global Certificate, as the case may be, and in relation to all other rights arising under the Global Note or Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged for payment to the bearer of such Global Note or the holder of such Global Certificate, as the case may be, in respect of each amount so paid.

So long as the Notes are represented by a temporary Global Note, permanent Global Note or Global Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified

Denomination) provided in the relevant Final Terms and integral multiples of the Tradeable Amount in excess thereof provided in the relevant Final Terms.

3 Exchange

Temporary Global Notes and Permanent Global Notes

Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note after the date falling 40 days after the issue date of the Notes upon certification as to non-U.S. beneficial ownership in the form scheduled to the Trust Deed. Each Permanent Global Note will be exchangeable at the cost and expense of the Issuer (i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of applicable law which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two authorised officers of the Issuer is delivered to the Principal Paying Agent for display to Noteholders.

On or after the Exchange Date the holder of a Permanent Global Note may surrender such Permanent Global Note, or in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bearer Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note).

In the event that the permanent Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denominations only. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the Exchange Date, a principal amount of Notes such that their holding is an integral multiple of a Specified Denomination.

Global Certificates

Each Global Certificate will be exchangeable on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Notes and Global Certificates*", in part for Individual Certificates:

(i) by the Issuer giving notice to the Noteholders, the Registrar, the Principal Paying Agent and the Trustee of its intention to effect such exchange;

(ii) if the relevant Final Terms provides that such Global Certificate is exchangeable at the request of the holder, by the holder giving notice to the Registrar and the Principal Paying Agent of its election for such exchange; and

(iii) otherwise, if the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the relevant Global Certificate shall be exchanged for Individual Certificates and the Issuer will, free of charge against such indemnity as the Registrar, the Principal Paying Agent or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Individual Certificates to be executed and delivered to the Principal Paying Agent or the Registrar for completion, authentication and dispatch to the relevant Noteholders. The relevant Noteholder must provide the Principal Paying Agent or the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Principal Paying Agent or the Registrar may require to complete, execute and deliver such Individual Certificates.

"**Exchange Date**" means, in relation to a Temporary Global Note, a day falling after the expiry of 40 days after its issue date, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days and in relation to a Global Certificate, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent or, as the case may be, the Registrar is located and in the city in which the relevant clearing system is located.

Delivery of Definitive Bearer Notes and Individual Certificates

On or after any due date for exchange (a) the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent and (b) the holder of any Global Certificate may, in the case of exchange in full, surrender such Global Certificate. In exchange for any Global Note or Global Certificate, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note or a Global Certificate exchangeable for Definitive Bearer Notes or Individual Certificates, as the case may be, procure the delivery of the relevant Definitive Bearer Notes or Individual Certificates. Definitive Bearer Notes will be security printed and Individual Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Bearer Notes and/or Individual Certificates.

Legend

Each Permanent Global Note and any Bearer Note and Coupon will bear the following legend:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

The sections of the U.S. Internal Code referred to in the legend provide that a United States taxpayer, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any

gain realised on any sale, exchange or redemption of Bearer Notes or any related Coupons.

4 Partial Exchange of Permanent Global Notes and Global Certificates

For so long as a Permanent Global Note or Global Certificate is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note or Global Certificate is obliged to be exchangeable in part on one or more occasions (1) in the case of a Permanent Global Note, for Individual Certificates if the Permanent Global Note is exchangeable for Registered Notes and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Bearer Notes or Individual Certificates, as the case may be, if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms).

5 Presentation and surrender of Notes

If the Notes represented by the Permanent Global Note are Bearer Notes exchangeable for Registered Notes or if the Notes represented by a Permanent Global Note or Global Certificate are Exchangeable Notes or Puttable Notes, the holder of the Permanent Global Note or Global Certificate will present the Permanent Global Note or Global Certificate to or to the order of the Principal Paying Agent in order to effect presentation and surrender of the Notes represented by the Permanent Global Note or Global Certificate for the purposes of the Conditions. The date on which and the principal amount of the Notes in respect of which the Permanent Global Note or Global Certificate was presented will be endorsed on the appropriate schedule to the Permanent Global Note or Global Certificate. On the Settlement Date, in the case of Exchangeable Notes, and on the Optional Redemption Date, in the case of Puttable Notes, the holder of the Permanent Global Note or Global Certificate is obliged to present it to or to the order of the Principal Paying Agent again and the reduction in the principal amount of the Notes outstanding will be endorsed by the Principal Paying Agent in the appropriate schedule.

6 Payments

No payment falling due more than 40 days after the issue date will be made on any Temporary Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Bearer Notes or Individual Certificates is improperly withheld or refused. Payments on any Temporary Global Note during the period up to 40 days after its issue date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form scheduled to the Trust Deed. All payments in respect of Bearer Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bearer Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Bearer Notes.

7 Notices

So long as any Notes are represented by a Temporary or Permanent Global Note or a Global Certificate, as the case may be, and such Global Note or the Notes represented by the Global Certificate is held on behalf of a clearing system, notices to holders of Notes of that Series may be given by delivery of the relevant

notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery to the relevant holder of the Global Note or the Notes represented by the Global Certificate, as the case may be, except that so long as the Notes are listed on the Official List of the Irish Stock Exchange Limited and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in Ireland (which is expected to be *The Irish Times*). Any notice delivered to Euroclear and/or Clearstream, Luxembourg or other Clearing System (if any) as aforesaid shall be deemed to have been given on the day on which it is delivered to the Common Depositary.

8 Prescription Period

Claims against the Issuer in respect of payments on the Bearer Notes while the Bearer Notes are represented by a Global Note will become void unless presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date.

9 Meetings

The holder of a Global Note or of the Notes represented by a Global Certificate will be treated as being one for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as holding or representing such principal amount of Notes of the Series in respect of which the holder exercises votes (up to the maximum of the principal amount of the Series then represented thereby).

10 Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note or, in the case of Registered Notes, by an appropriate entry in the Register.

11 Issuer Option

If any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system through which interests in the relevant Global Note or Global Certificate are held will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominee amount, at their discretion) or any Alternative Clearing System (as the case may be).

12 Noteholders' Option

Any Noteholders' option may be exercised by the holder of any Global Note or Global Certificate giving notice to the Principal Paying Agent or the Registrar, as the case may be, of the principal amount of Notes in respect of which the option is exercised and presenting such Global Note or Global Certificate for endorsement of exercise or (in the case of a Global Certificate) cancellation and reissue within the time limits specified in the Conditions.

13 Tradable Amounts

So long as the Notes are represented by a Temporary Global Note, Permanent Global Note or Global Certificate and the relevant clearing system(s) so permit,

the Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the Tradeable Amount specified in the relevant Final Terms.

SUBSCRIPTION AND SALE

Introduction

Subject to the terms and conditions contained in a dealer agreement dated 28 March 2007 as amended and restated from time to time and as most recently amended and restated on 29 June 2009 (the "**Dealer Agreement**") made between the Issuer and KBC Bank NV (the "**Initial Dealer**" and together with any further financial institution appointed as dealer under the Dealer Agreement, the "**Dealers**"), the Notes may be sold by the Issuer to the Dealers, who shall act as principals in relation to such sales. The Dealer Agreement also provides for Notes to be issued in Series which are jointly and severally underwritten by two or more Dealers. In the event that an issue of Notes is sold only in part to Dealers, information to this effect shall be included in the relevant Final Terms for such issue.

The Issuer will pay a Dealer a commission as agreed between the Issuer and a Dealer in respect of the Notes subscribed by it.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the Issuer or, in relation to itself and itself only, by any Dealer, at any time on giving not less than 30 business days' notice.

The names or names of the Dealer or Dealers (if any) of the Notes, the Issue Price of the Notes and, if listed, any commissions payable in respect thereof will be specified in the relevant Series Offering Document or Final Terms, as applicable.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries. None of the Issuer or any other Dealer shall have any responsibility therefor.

None of the Issuer or any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

In particular (but without limiting the generality of the above), subject to any amendment or supplement which may be agreed with the Issuer in respect of the issue of any Tranche, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, to comply with the following provisions except to the extent that, as a result of any change in, or the official interpretation of, any applicable laws and/or regulations, non-compliance would not result in any breach of the applicable laws and/or regulations.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed and each further Dealer appointed under the Programme will be required to agree that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act. The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each issuance of Index Linked Notes, Equity Linked Notes, Commodity Linked Notes, Currency Linked Notes, Credit Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State: (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable; (b) at any time to legal

entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Ireland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not underwrite, offer, place or do anything with respect to the Notes:

(a) otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007, as amended (the MiFID Regulations) if operating in or otherwise involving Ireland and, if acting under and within the terms of an authorisation to do so for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (MiFID) it has complied with any applicable requirements of the MiFID Regulations or as imposed, or deemed to have been imposed, by the Financial Regulator pursuant to the MiFID Regulations and, if acting within the terms of an authorisation granted to it for the purposes of Directive 2006/48/EC of the European Parliament and the Council of the 14 June 2006 relating to the taking up and the pursuit of the business of credit institutions as amended, replaced or consolidated from time to time, it has complied with any codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989 of Ireland (as amended) and any applicable requirements of the MiFID Regulations or as imposed pursuant to the MiFID Regulations;

(b) otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Irish Financial Services Regulatory Authority, a constituent part of the Central Bank and Financial Services Authority of Ireland (the "**Financial Regulator**"); and

(c) otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Financial Regulator.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (FSMA) by the Issuer; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any Notes with a maturity of less than 12 months will either have a minimum denomination of EUR50,000 or be offered in or outside the Netherlands only to professional market parties as defined in the Financial Supervision Act (Wet op het financieel toezicht) and the decrees issued pursuant thereto. Pursuant to the Netherlands Savings Certificates Act (Wet inzake spaarbewijzen or the "Savings Certificates Act") of 21st May, 1985, any transfer or acceptance of Notes which falls within the definition of savings certificates (spaarbewijzen) in the Savings Certificates Act is prohibited unless the transfer and acceptance is done through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. The aforesaid prohibition does not apply (i) to a transfer and acceptance by natural persons not acting in the course of their business of profession and (ii) to the issue of Notes qualifying as savings certificates to the first holders thereof. If the Savings Certificates Act applies, certain identification requirements in relation to the issue of, transfer of, or payment on Notes qualifying as savings certificates have to be complied with. The Savings Certificates Act is not applicable to the issue and trading of Notes qualifying as savings certificates, if such Notes are physically issued outside the Netherlands and are not immediately thereafter distributed within the Netherlands in the course of primary trading.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) Offer to the public in France:

it has only made and will only make an offer of Notes to the public (appel public à l'épargne) in France in the period beginning (i) when a prospectus in relation to those Notes has been approved by the Autorité des marchés financiers ("AMF"), on the date of its publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of the

approval of the base prospectus all in accordance with articles L.412-1 and L.621-8 of the French Code monétaire et financier and the Règlement général of the AMF; or

(b) Private placement in France:

in connection with their initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (investisseurs qualifiés), other than individuals, and/or (c) a restricted group of investors (cercle restreint d'investisseurs), all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 and D.411-2 of the French Code monétaire et financier.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except: (i) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, as amended (the "Financial Services Act") and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive 2003/71/EC of 4th November, 2003; or (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended ("Regulation No. 11971"). Any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be: (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29th October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1st September, 1993, as amended (the "Banking Act"); and (b) in compliance with the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation of investments applies under (i) and (ii) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Cayman Islands

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that the public in the Cayman Islands

may not be invited to subscribe for the Notes of any Series unless at the time of such invitation the Issuer is listed on the Cayman Islands Stock Exchange.

Taiwan

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not sell, issue or offer Notes in Taiwan, and will only make Notes available to Taiwanese investors from outside Taiwan and that no person or entity in Taiwan has been authorised to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the "FIEL") and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it has not offered and sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Czech Republic

No permit for the issue of the Notes has been obtained (including the obtaining of the approval of the terms and conditions of the Notes) from the Securities Commission of the Czech Republic (the "Securities Commission") under Act of the Czech Republic No. 190/2004 Coll., on Bonds ("Bonds Act") No action has been taken (including the obtaining of the prospectus approval from the Securities Commission and the admission to trading on a regulated market (as defined in Section 37 of the Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market (the "Capital Market Act")) for the purposes of the Notes to qualify as listed securities within the meaning of Section 44(1) of the Capital Market Act. Each Dealer has agreed, and each other Dealer appointed under the Programme will be required to agree, that it has not offered or sold, and will not offer or sell, any Notes in the Czech Republic through a public offering, being – subject to several exemptions set out in the Capital Market Act – any conduct by which a broader circle of persons have had communicated to them sufficient information on the securities being offered and the terms under which they may acquire the securities and which the Investor needs to make a decision to subscribe for, or purchase, such securities. Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued in the Czech Republic, the issue of the Notes being classed as "accepting of deposits from the public" by the Issuer in the Czech Republic under Section 2(1)(a) of Act of Czech Republic No.21/1992 Coll., on Banks (as amended) (the "Banks' Act") or requiring a permit, registration, filing or notification to he Securities Commission, the Czech National Bank or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Markets Act, the Bonds Act, the Banks' Act or the practice of the Securities Commission or the Czech National Bank. Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in respect of the Notes.

Poland

No permit has been obtained from the Polish Securities and Exchange Commission ("**PSEC**") in relation to the issue of the Notes nor has the issue of the Notes been notified to the PSEC in accordance with applicable procedures. Accordingly, the Notes may not be offered in the Republic of Poland ("**Poland**") in the public manner, defined in the Polish Act on Public Offering and on Conditions of Introducing Financial Instruments to an Organised Trading System as well as on Public Companies dated 29th July, 2005 (as amended) as an offering to sell or purchase of securities, made in any form and by any mean, if the offering is directed at 100 or more people or at an unnamed addressee ("**Public Offering**"). Each Dealer has confirmed that it is aware that no such permit has been obtained nor such notification made and represents that it has not offered, sold or delivered and will not offer, sell or deliver the Notes in Poland in the manner defined as Public Offering as part of their initial distribution or otherwise to residents of Poland or on the territory of Poland. Each Dealer has acknowledged that the acquisition and holding of the Notes by residents of Poland may be subject to restrictions imposed by Polish law (including foreign exchange regulations) and that the offers and sales of the Notes to Polish residents or within Poland in secondary trading may also be subject to restrictions.

Republic of Slovenia

No action shall be taken by the Dealers which might be considered a public offering, public reoffering or organisation of trading of Notes in the Republic of Slovenia or which might be regarded as being taken with an aim to create a wrong or misleading information or tradability of price of the Notes. Consequently, the Notes shall not, in any way, be offered to the public in the Republic of Slovenia nor shall any action be taken that would constitute the offering of such securities to an indefinite group of persons in the Republic of Slovenia or the advertising or organisation of trading thereof or such other activities.

Slovak Republic

Subject to certain exceptions, Notes may not be offered publicly in the Slovak Republic. A public offer means any notice, recommendation or other text, or any other form of action, by which anyone, whether himself or through a third person, on its own or on someone else's behalf, makes a public address by any means of publication to an unspecified group of previously unspecified persons to acquire the offered securities or which creates an interest in the acquisition or securities.

GENERAL INFORMATION

(1) It is expected that each Tranche of Notes which is to be listed on the Official List and admitted to trading on the regulated market of the Irish Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes or a Global Certificate or Individual Certificate initially representing the Notes of such Tranche. The listing of the Programme is expected to be granted on or before 29 June 2009. The Programme provides that Notes may be listed on such further or other stock exchange(s) or admitted to trading on such further or other markets as the Issuer may decide. The Issuer may also issue unlisted Notes and Notes which are not admitted to trading on any market.

(2) The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the establishment of the Programme and the issue and performance of Notes under the Programme. The establishment and update of the Programme and the issue of Notes under the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 6 March 2007, 27 March 2008 and 18 June 2009.

(3) There has been no material adverse change in the financial position or prospects of the Issuer since the date of its last published audited financial statements, being for its financial year ended 30 April 2008.

(4) The Issuer is not nor has it been since the date of its incorporation, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have had in the recent past, significant effects on the Issuer's financial position or profitability.

(5) The audited consolidated financial statements of KBC Bank NV and its consolidated subsidiaries for the financial years ended 31 December 2007 and December 2008 together with the related auditors' reports are set out as Annex 2 and Annex 3 hereto.

(6) Save as disclosed in this Base Prospectus, there has been

(a) no material adverse change in the prospects of KBC Bank NV; and

(b) no significant change in the financial or trading position of KBC Bank NV,

since 31 December 2008, being the date of its last published audited consolidated financial statements, a copy of which, together with the related auditors' report is attached hereto as Annex 3.

(7) Save as disclosed in Annex 4 to this Base Prospectus, there are no governmental, legal or arbitration proceedings in the last twelve months (including any such proceedings which are pending or threatened of which KBC Bank is aware) which may have, or have had in the recent past, significant effects on KBC Bank's or the KBC Group's financial position or profitability.

(8) There has been no material adverse change in the prospects of Fairport since the date of its incorporation.

(9) There are no governmental, legal or arbitration proceedings in the last twelve months (including any such proceedings which are pending or threatened of which Fairport is aware) which may have, or have had in the recent past, significant effects on Fairport's financial position or profitability.

(10) Each Bearer Note, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

(11) It is expected by the Issuer that all Bearer Notes and Registered Notes will be accepted for clearing through Euroclear and Clearstream, Luxembourg, or other clearing system specified in the relevant Final Terms. The Common Code for each Series of Bearer Notes, together with the relevant ISIN number and the CUSIP number and/or CINS number for each Series of Registered Notes, will be contained in the Final Terms or Series Offering Document, as applicable, relating thereto.

(12) From the date hereof and for as long as the Programme remains in effect or any Notes issued thereunder remain outstanding, the following documents will be available for inspection in physical form, during usual business hours on any weekday (Saturdays and Sundays and public holidays excepted) for inspection at the registered office of the Issuer, and the Specified Office of the Principal Paying Agent:

(i) the Master Trust Deed;

(ii) each Supplemental Trust Deed;

(iii) the Agency Agreement;

(iv) the Dealer Agreement;

(v) the Master Definitions and Common Terms Agreement;

(vi) the Portfolio Management Agreement;

(vii) each Swap Agreement;

(viii) the constitutional documents of the Issuer (being its certificate of incorporation and memorandum and articles of association);

(ix) the constitutional documents of KBC Bank NV;

(x) each Final Terms for Notes which are outstanding and are listed on the Official List of the Irish Stock Exchange Limited;

(xi) a copy of this Base Prospectus;

(xii) all reports, letters, other documents, historical financial information, valuations and statements prepared by any expert at the Issuer's or KBC Bank's request, any part of which is included or referred to in the Base Prospectus; and

(xiii) the most recently published audited and unaudited financial statements of each of the Issuer and KBC Bank.

(13) The Issuer does not intend to provide any post-issuance information in relation to the Notes or any Series Secured Assets.

(14) The auditors of KBC Bank NV are Ernst & Young Bedrijfsrevisoren BCV (erkend revisor/réviseur agrée), represented by D. Vermaelen and J.-P. Romont, with offices at Schelde II-gebouw, Moutstraat 54, B-9000 Gent. The auditors of KBC Bank NV are members of the Instituut der Bedrijfsrevisoren/Institut des Reviseurs d'Entreprises. The financial statements of KBC Bank NV for the years ended 31 December 2007 and 31 December 2008 have been audited in accordance with Belgian GAAP and resulted in an unqualified opinion.

(15) The language of this Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Base Prospectus.

ANNEX 1

Description Of Fairport Capital Investments p.l.c.

The following description of Fairport has been accurately reproduced from the base prospectus issued by Fairport dated 24 June 2009 (the "**Fairport Base Prospectus**") and as far as the Issuer is aware and is able to ascertain from information published by Fairport, no facts have been omitted which would render the following information inaccurate or misleading. The following information and any other information contained in this Base Prospectus relating to Fairport is qualified by the provisions of the Fairport Base Prospectus. The Fairport Base Prospectus does not form part of this Base Prospectus.

Legal Form	Public Limited Company
Country of Incorporation	Ireland (Registered Number 426055)
Registered Office	4th Floor, Hanover Building, Windmill Lane, Dublin 2
Nature of Business	The principal objects of Fairport are set out in clause 3 of its Memorandum of Association and are, inter alia, to issue, purchase, acquire, deal, trade, hold, manage or otherwise enter into an arrangement which constitutes any financial asset including, without limitation, shares, bonds, and other securities, all kinds of futures, options, swaps, derivatives and similar instruments, invoices and to raise, borrow and secure the payment of money by the creation and issue of notes, bonds, debentures, commercial paper, or other securities whether or not secured upon all or any of Fairport's undertaking, assets, property and revenues.
Listing and Trading	Fairport has published a Base Prospectus in respect of its €40,000,000,000 Programme for the Issue of Notes. The Fairport Base Prospectus has been approved by the Financial Regulator as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Ireland. Fairport has applied to the Irish Stock Exchange for notes issued pursuant to the Fairport Base Prospectus to be listed on the Official List of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange.
Governing Law of the notes issued by Fairport	Irish law.

ANNEX 2

Audited Consolidated Annual Financial Statements 31 December 2007

The audited consolidated annual financial statements of KBC Bank NV and its consolidated subsidiaries for the financial year ended 31 December 2007 together with the related auditors' report.

Annual report KBC Bank

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Volume 1

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TO THE READER

Name of the company

Everywhere where mention is made of KBC, the group or KBC Bank in volume 1 of this annual report, the consolidated bank entity is meant, i.e. KBC Bank NV, including all its subsidiaries and sub-subsidiaries. Where KBC Bank NV is used, this refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank.

Forward-looking statements

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

Glossary of ratios used

CAD ratio	[consolidated regulatory capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.
Cover ratio	[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.
Cost/income ratio	[operating expenses] / [total income]
Loan loss ratio	[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section.
Non-performing ratio	[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].
Return on equity	[profit after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets].
Tier-1 ratio	[consolidated Tier-1 capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium.

RLP 0403 227 515, bank account No. 734-0051374-70.

KBC Bank NV, CBFA Registration No. 26256

KBC Bank profile

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Shareholders

Shareholders, 31-12-2007	Number of shares
KBC Group	412 331 793
KBC Insurance	1
Total	412 331 794

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel, 31-12-2007	
Bank branches	
Belgium	923
Central & Eastern Europe and Russia	1 223
Number of staff (in FTEs)	
Belgium	12 879
Central & Eastern Europe and Russia	26 479
Rest of the world	2 882
Total	42 240

Financial calendar

Financial communication is organised at KBC group level. The General Meeting of Shareholders of KBC Bank is held on 23 April 2008. KBC Bank's annual report will be available on 9 April 2008.

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

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

Long-term credit ratings

Long-term credit ratings, 29-02-2008	
Fitch	AA-
Moody's*	Aa2
Standard & Poor's	AA-

* Negative outlook.

Key financial figures at group level

Key financial figures at group level, IFRS	2006	2007
Balance sheet, end of period (in millions of EUR)		
Total assets	275 738	309 476
Loans and advances to customers	119 188	146 710
Securities	88 366	80 437
Deposits from customers and debt securities	169 638	182 5670
Parent shareholders' equity	10 603	12 342
Income statement (in millions of EUR)		
Total income	7 158	7 576
Operating expenses	-3 872	-4 140
Impairment	-169	-212
Profit after tax, group share	2 083	2 261
Solvency		
Tier-1 ratio, KBC Bank (Basel I / Basel II)	8.5% / na	7,8% / 8,5%
CAD ratio, KBC Bank (Basel I / Basel II)	11.1% / na	10,5% / 12,2%

na: not available.

Contact details

Contact details	
Investors and analysts	
Investor Relations	Luc Cool (Director of Investor Relations), Lucas Albrecht (Financial Communications Officer)
	Sandor Szabó (Investor Relations Manager), Christel Decorte (Investor Relations Assistant)
	Ida Markvartova (Investor Relations Analyst), Marina Kanamori (CSR Communications Officer)
E-mail	investor.relations@kbc.com
Website	www.kbc.com
Address	KBC Group NV, Investor Relations Office – IRO, 2 Havenlaan, 1080 Brussels, Belgium
Press	
Press Office	Viviane Huybrecht (Head of Group Communication and the Press Office, Company Spokeswoman)
Tel.	02 429 85 45 – 32 2 429 85 45
E-mail	pressofficekbc@kbc.be
Website	www.kbc.com
Address	KBC Group NV, Group Communication – GCM, 2 Havenlaan, 1080 Brussels, Belgium

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

Discussion of the consolidated annual accounts

Overview of the consolidated income statement for financial year 2007

Income statement, KBC Bank (consolidated, IFRS-compliant, in millions of EUR)	2006	2007
Net interest income	3 271	3 179
Dividend income	139	126
Net (un)realised gains from financial instruments at fair value through profit or loss	1 468	1 768
Net realised gains from available-for-sale assets	181	189
Net fee and commission income	1 648	1 897
Other net income	451	416
Total income	7 158	7 576
Operating expenses	-3 872	-4 140
Impairment	-169	-212
on loans and receivables	-176	-148
on available-for-sale assets	-2	-50
Share in the result of associated companies	43	59
Profit before tax	3 160	3 283
Income tax expense	-759	-750
Net post-tax income from discontinued operations	0	0
Profit after tax	2 401	2 534
attributable to minority interests	318	273
attributable to equity holders of the parent	2 083	2 261

Analysis of the income statement

Preliminary remarks

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union. As of 2007, IFRS 7 on financial instruments disclosures has been applied. This standard affects mainly the balance sheet presentation. It requires financial instruments to be classified per book (held-for-trading, at fair value through profit or loss, available-for-sale, etc.) instead of per product (loans and advances to banks, securities). The reference figures have been restated accordingly.

There were no changes in the valuation rules that had a significant effect on net profit or equity.

Compared to financial year 2006, the net impact on net profit of changes in the scope of consolidation is limited. The main changes relate to the inclusion of Absolut Bank and Economic and Investment Bank in the scope of consolidation.

The non-euro currencies most relevant for KBC fluctuated significantly in 2007. Overall, the Central and Eastern European currencies appreciated in value, while the US dollar and pound sterling depreciated in value relative to the euro.

	Exchange rate at 31-12-2007		Exchange rate average in 2007	
	1 EUR = … currency	Change from 31-12-2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26,63	3,2%	27,77	2,0%
GBP	0,733	-8,4%	0,685	-0,3%
HUF	253,7	-0,8%	251,3	5,1%
PLN	3,594	6,6%	3,785	3,1%
SKK	33,58	2,5%	33,78	10,1%
USD	1,472	-10,5%	1,373	-8,4%

The net impact on net profit of fluctuations in non-euro currencies was negligible, as macrohedging instruments were used to offset the effect of such fluctuations.

Financial highlights – 2007:

- The group's share of net profit went up by 178 million euros to 2 261 million euros (+9%).
- Total income and operating expenses went up in tandem by 6% and 7%, respectively.
- Impairment remained at a relatively low 212 million euros.

Total income includes net interest income, dividend income, net gains on financial instruments at fair value through profit or loss, net realised gains from available-for-sale assets, net fee and commission income and other net income.

There was a 3% decrease in net interest income, which accounts for 42% of gross income. This decrease was accounted for entirely by the higher cost of financing market activities. Disregarding this interest expense, net interest income went up, partly thanks to the higher volume of loans and deposits within the group. In 2007, loans and deposits grew even on an organic basis (i.e. excluding acquisitions and exchange differences). The increase in Central and Eastern Europe was particularly striking (organic growth of 23% in loans and 11% in deposits). On the other hand, Belgium was negatively affected by the shift from savings accounts to other products such as investment funds (income from which appears under other income statement items) and time deposits (which result in a lower margin for the group).

About two-thirds of dividend income was accounted for by dividends on held-for-trading securities, and came to a total of 126 million euros.

Net gains from financial instruments at fair value through profit or loss came to 1 768 million euros in 2007, a 20% increase on 2006. This growth is, however, fully explained by the results of the dealing room activities that are recognised under other income statement items (financing costs under net interest income, for instance, fees and commission paid under net fee and commission income) and by fair value adjustments of ALM hedging instruments whose underlying is not measured at fair value under IFRS. If these elements are not taken into account, the trading result was down year-on-year, partly due to the turbulence on the financial markets in the latter half of the year - which put pressure on the results of certain of the group's capital market activities - including the lower market value of the CDOs in the group's portfolios consequent on the mortgage crisis in the US (-103 million euros before tax and -67 million euros after tax) and value adjustments made for counterparty exposure to credit reinsurers (-39 million euros before tax and -23 million euros after tax).

Net realised gains from available-for-sale assets edged up to 189 million euros. Net realised gains on shares went up in 2007 to 335 million euros from the 147 million euros recorded for 2006. In 2007, a gain of 207 million euros was realised on the sale of the holding in Intesa Sanpaolo. On fixed-income securities, a net loss of 145 million euros was realised in 2007, whereas a net realised gain had been recognised in 2006 of 34 million euros.

Net fee and commission income went up in 2007 by 15% to 1 897 million euros. The increase is due largely to the securities trading and asset management businesses.

Other income fell from 451 million euros to 416 million euros. In 2006, this heading had included 36 million euros from the sale of buildings in the Czech Republic and 60 million euros on the sale of the stake in BCC/Banksys; in 2007, it had been accounted for by, among other things, the 35-million-euro gain on the sale of a Hungarian bank card clearing house and a refund of 43 million euros from the Belgian deposit protection scheme.

Operating expenses include both staff expenses and depreciation and amortisation charges for fixed assets, other operating expenses and provisions for liabilities and charges. Expenses remained under control in 2007, and went up more or less in tandem with gross income. Accordingly, the cost/income ratio remained virtually unchanged at 55% (54% in 2006).

Impairment losses on loans and receivables went down from 176 million euros to 148 million euros. Of this amount, 83 million euros were set aside at the Central European and Russian subsidiaries.

Impairment on available-for-sale financial assets came to 50 million euros, compared with a mere 2 million euros a year earlier, mainly on account of the deteriorating stock market climate in the latter part of 2007. In both 2006 and 2007, impairment on goodwill and other assets was limited (14 million euros in 2007, as against a net reversal of 9 million euros in 2006).

The share in the results of associated companies came to 59 million euros in 2007, and related (just as in 2006) primarily to the contribution (via the equity method) of the 34% minority interest in Nova Ljubljanska banka (NLB) in Slovenia.

Income tax expense amounted to 750 million euros. Profit after tax attributable to minority interests totalled 273 million euros, less than the previous year, mainly because of the buy-out of minority interests in ČSOB (Czech Republic).

Analysis of the balance sheet and solvency

The consolidated balance sheet total at year-end 2007 came to 309.5 billion euros, 12% more year-on-year.

As in 2006, loans and advances to customers (146.7 billion euros at the end of 2007) and securities (80.4 billion euros) were the main products on the asset side of the balance sheet. The increase in loans and advances was most marked in Central & Eastern Europe and Russia (+23%). At group level, the main credit products were term loans (73.2 billion euros) and home loans (46.8 billion euros, organic growth of 16% year-on-year). The securities portfolio (80.4 billion euros) contains both held-for-trading instruments and securities held in the bank's investment portfolio.

The main product on the liabilities side of the balance sheet was again deposits from customers and debt securities, which amounted to 182.6 billion euros at the end of 2007. Time deposits (59.6 billion euros), demand deposits (37.8 billion euros) and savings deposits (27.1 billion euros, down 9% on 2006) were the main deposit products.

On 31 December 2007, parent shareholders' equity came to 12.3 billion euros (10.6 billion euros at year-end 2006). The main changes in equity compared with year-end 2006 relate to the inclusion of profit for the financial year (+2.3 billion euros), the dividends for 2006 paid out in 2007 and the interim dividend paid in 2007 (-1.4 billion euros), the change in the revaluation reserve for available-for-sale assets (-0.6 billion euros) and the 1.5-billion-euro capital increase that was subscribed in full by KBC Group NV.
Reported according to Basel II since 2007, KBC Bank's solvency ratios (at the consolidated level) of 8.5% and 12.2% were well above the legal requirements for the tier-1 and CAD ratios, respectively.

Appropriation of 2007 profit by KBC Bank

The Board of Directors will propose to the General Meeting of Shareholders that 1 591 million euros be paid out in dividends (715 million euros of which was paid out in mid-November 2007 as an interim dividend) and 0.7 million euros in directors' emoluments.

Post-balance-sheet events

The main non-adjusting events after balance sheet date were:

- The reaching of a compromise settlement by the group with a number of insurance companies regarding a legal dispute. No additional information can be provided on this matter, as it might prejudice the group's position.

Additional information

- Repurchase of own shares: Neither KBC Bank nor its subsidiaries hold any treasury stock.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code: there were no such conflicts of interest in 2007.
- Discharge of the directors and the auditor: In compliance with the law and the articles of association, the General Meeting of Shareholders is requested to grant discharge to the directors and the auditor for the performance of their mandate in the 2007 financial year.
- Appointment**s:** Effective from the General Meeting on 23 April 2008, Mr Lode Morlion will step down as director. It will be proposed to the General Meeting that Mr Walter Nonneman be appointed to replace him. Walter Nonneman (°1948) is a professor at the Faculty of Law and the Faculty of Applied Economics at the University of Antwerp (*Universiteit Antwerpen*), where he currently teaches general and public economics, along with other subjects. He studied applied economics and management at the UFSIA and the Harvard Business School. Mr Nonneman has also worked for the cabinet of various ministers and was head of the cabinet office of the Belgian Prime Minister, Jean-Luc Dehaene (1997-1999). He is managing director of various non-profit organisations (including the *Universitair Centrum Sint Ignatius Antwerpen*), and sits on the Board of NV Cera Beheersmaatschappij.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, listed in annex 1 are the external offices held by the executive managers and directors of KBC Bank in other companies, with the exception of those functions performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1

Company name	Registered office	Sector	Position	Listed (N= not)	Share of capital held (N= none)
Luc Philips, Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	36,00%
Norkom Technologies Ltd	UK	technology software	Director	N	N
Norkom Alchemist Ltd	Ireland	technology software	Director	N	N
Norkom Group Ltd	Ireland	holding company	Director	ISE; AIM	N
Zinner NV	Belgium	real estate	Director	N	13,11%
Elbion NV	Belgium	biotechnology	Director	N	N
ThromboGenics NV	Belgium	biopharmaceuticals	Director	Euronext	N
Frans Florquin, executive Director					
Concert Noble NV	Belgium	conference venues	Chairman of the Board	N	100,00%
VTB-VAB	Belgium	road breakdown assistance	Director	N	N
VTB-VAB Group	Belgium	road breakdown assistance	Director	N	N
Jan Huyghebaert, Chairman					
Alcatel Bell n.v.	Belgium	technology hardware	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Miko NV	Belgium	food/plastics	Independent Director	NYSE Euronext	N
Germain Vantieghem, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
VTB-VAB	Belgium	road breakdown assistance	Director	N	N
VTB-VAB Group	Belgium	road breakdown assistance	Director	N	N
Guyro	Belgium	real estate	Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	temporary employment	Director	N	N
Aktiefinvest cvba	Belgium	real estate	Director	N	N
Ardo Immo	Belgium	real estate	Director	N	N
Maatschappij voor Grondbezit n.v.	Belgium	real estate	Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten cvba	Belgium	Accountancy & consulting	Director	N	N
Guido Segers, Executive Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	N
Novoli Immobiliare	Italy	real estate	Director	N	32,78%
Novoli Investors	Netherlands	real estate	Director	N	60,98%
KBC Real Estate NV	Belgium	real estate	Chairman of the Board	N	100,00%
KBC Vastgoedportefeuille België NV	Belgium	real estate	Director	N	100,00%
KBC Verzekeringen Vastgoed Nederland I BV	Netherlands	real estate	Member of the Supervisory Board	N	100,00%
KBC Real Estate Luxembourg	Luxemburg	real estate	Chairman of the Board	N	100,00%
KBC Internationale Financieringsmaatschappij NV	Netherlands	issuing company	Member of the Supervisory Board	N	100,00%
KBC International Finance NV	Curaçao	issuing company	Member of the Supervisory Board	N	100,00%
Gebema NV	Belgium	investment company	Chairman of the Board	N	100,00%
KBC Credit Investments NV	Belgium	investment company	Director	N	100,00%
Luc Gijsens, Senior General Manager					
Real Estate Participation n.v.	Belgium	property development	Director	N	50,00%
KBC Vastgoedportefeuille n.v.	Belgium	real estate	Director	N	100,00%
Immo-Basilix n.v.	Belgium	real estate	Director	N	95,00%
Immo-Marcel Thiry n.v.	Belgium	real estate	Director	N	95,00%
Immo-Regentschap n.v.	Belgium	real estate	Chairman of the Board of Directors	N	75,00%
Immo-Zenobe Gramme n.v.	Belgium	real estate	Director	N	100,00%
Immo-Plejaden	Belgium	real estate	Director	N	100,00%
Immo-Kolonel Bourgstraat n.v.	Belgium	real estate	Director	N	50,00%
Vastgoed Ruimte Noord	Belgium	real estate	Director	N	100,00%
KBC Real Estate Luxembourg	Luxemburg	real estate	Director	N	99,99%
Prague Real Estate	Belgium	real estate	Director	N	36,59%
Wetenschap Real Estate	Belgium	real estate	Director	N	86,59%
Apitri	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Brussels North Distribution	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Covent Garden Real Estate	Belgium	real estate	Director	N	50,00%
FM-A Invest	Belgium	real estate	Director	N	50,00%
Immo North-Plaza	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Immo Antares	Belgium	real estate	Director	N	100,00%
KBC Vastgoedinvesteringen	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg North Distribution	Luxemburg	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg Offices Securitisations	Luxemburg	real estate	Chairman of the Board of Directors	N	100,00%
Mechelen City Center	Belgium	real estate	Chairman of the Board	N	73,17%
Immo Lux-Airport NV	Luxemburg	real estate	Chairman of the Board	N	48,76%
Sonja De Becker, Director					
Aktiefinvest cvba	Belgium	real estate	Executive Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	Accountancy & consulting	Chairman of the Board	N	N
SBB Bedrijfsdiensten cvba	Belgium	Accountancy & consulting	Executive Director	N	N
Maatschappij voor Roerend Bezit van de Belgische Boerenbond	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Acerta Consult cvba	Belgium	services sector	Director	N	N
Acerta Middelenbeheer	Belgium	services	Director	N	N
Agriflora cvba	Belgium	organisation of fairs	Director	N	N
Stabo cvba	Belgium	products and services	Director	N	N
Agro - Services cvba	Belgium	temp	Director	N	N
BB-patrim	Belgium	holding company	Director	N	N
Julien De wilde, Independent Director					
Agfa Gevaert	Belgium	industry	Independent Director	Euronext	N
Bank J. Van Breda & Co	Belgium	financial sector	Independent Director	N	N
Bekaert	Belgium	industry	Director	Euronext	N
CTO Mobility	Belgium	orthopaedic products	Independent Director	N	N
Metris	Belgium	ICT	Chairman of the Board of Directors	Euronext	N
Nyrstar	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding	Belgium	holding company	Independent Director	Euronext	N
Pierre Konings, Director					
BD-World SA	Belgium	distribution	Director	N	N
E-Capital II	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Lode Morlion, Director					
Almond&Co NV	Belgium	food	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Chairman	N	N
Paul Peeters, Director					
Almancora Beheersmaatschappij	Belgium	management	Director	N	N
Cera Beheersmaatschappij	Belgium	management	Director	N	N
Gustaaf Sap, Director					
Cecan NV	Belgium	holding company	Chairman of the Board	N	N
Cecan Invest NV	Belgium	financial sector	Director	N	N
Patrick Vanden Avenne, Director					
Calibra Poultry NV	Belgium	poultry processing	Chairman of the Board	N	N
Biopower cvba	Belgium	industry	Vice-Chairman of the Board of Directors	N	N
Bens NV	Belgium	food	Executive Director	N	N
Sininvest NV	Belgium	poultry	Director	N	N
Vanden Avenne Vrieshuis NV	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem	Belgium	compound feed	Executive Director	N	N
Lacotrans NV	Belgium	transport	Executive Director	N	N
Euro-Silo NV	Belgium	transfer and storage of grain	Director	N	N
Acta NV	Belgium	transport	Director	N	N
Isarick NV	Belgium	management	Director	N	N
Harpaca NV	Belgium	management	Director	N	N
Larinvest NV	Belgium	holding company	Director	N	N
Ispahan NV	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	business manager	N	N
Fidex NV	Belgium	transport	Director	N	N
Dirk Wauters, Director					
VRT	Belgium	audio-visual media	Executive Director	N	N
Vlaamse Audiovisuele Regie	Belgium	advertising	Chairman of the Board of Directors	N	N

Main events

Introduction

A description is provided below of the main developments at KBC Bank over the past financial year. In view of the far-reaching co-operation between KBC Bank and its sister companies, KBC Insurance, Kredietbank SA Luxembourgeoise (KBL European Private Bankers, below, abbreviated to KBL EPB) and the holding company, KBC Group NV, developments at these companies cannot in certain cases be viewed separately from those occurring at KBC Bank, with the result that additional information may be provided on these companies in this text from time to time.

Description of the network and the main events in 2007

Retail & private bancassurance in Belgium

Facts and figures, retail & private bancassurance in Belgium	2006	2007
Customers (estimate)		
Bank customers (in millions)	3,4	3,4
Network		
Retail bank branches, KBC Bank and CBC Banque*	869	865
Private banking branches, KBC Bank and CBC Banque	25	25
Bank agencies, Centea	708	712
Assets under management (in millions of EUR)		
Investment funds for private individuals	71 481	78 940
Assets managed for private individuals	36 135	40 833
Assets managed for institutional investors	19 830	24 742
Group assets managed by KBC Asset Management	15 420	17 165
Total	142 866	161 680
Market share (estimates)		
Loans	22%	22%
Deposits	19%	18%
Investment funds	34%	35%
Cross-selling indicators		
Life insurance sold via the bank channel	82%	77%
Non-life insurance sold via the bank channel	12%	15%
E-payments indicators – Belgium		
Percentage of payment transactions via electronic channels	91%	93%
Number of KBC- and CBC-Matic ATMs	1 240	1 277
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	3.2 million	3.9 million
Active subscribers to KBC Internet and PC banking facilities	510 000	580 000
Customer satisfaction		
Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10)	69%	72%
Loan portfolio		
Amount granted (in billions of EUR)	53,9	58,1

* Excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the section on merchant banking.

Network

KBC serves its retail and private banking customers in Belgium through 890 bank branches (KBC Bank in the Dutch-speaking part of the country and CBC Banque in the French-speaking part), 712 independent bank agents of the savings bank Centea, 552 tied insurance agencies of KBC Insurance, and independent insurance brokers (for Fidea products).
Additionally, the group offers its services and products through various electronic networks (see below for more information), as well as through call and contact centres. These centres will soon be regrouped and reintegrated, thus enabling them to be developed into true competency centres and fully fledged distribution and service channels.

The group serves some 3.4 million bank customers (and, together with KBC Insurance, around 1.4 million insurance customers) in Belgium through its networks.

Bancassurance co-operation

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

As an alternative to deposits or investment funds, life insurance is, by its nature, extremely suited to the product mix offered by bank branches. KBC Bank's branches in Belgium have therefore traditionally accounted for the vast majority (around 77% in 2007) of the life insurance premium volume of the KBC group in Belgium. Needless to say, for non-life insurance, the KBC Insurance agents and the brokers are still the main distribution channels, accounting for 64% and 21% of premium volume, although KBC Bank's network was already generating 15% of non-life insurance premium volume in Belgium in 2007.

Market position

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

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

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

Electronic channels

KBC Bank makes its products and services available not only via an extensive network of branches, but also through high-performance electronic channels, which are continuously enhanced and upgraded. For example, in 2007, the range of electronic banking and insurance services provided through KBC-Online (KBC's main system in Belgium for online banking and insurance) was expanded to offer customers more detailed account records, a 'remittance folder' facility for sending more than one transfer order to the bank at a time, and new, improved security in the form of a card reader.

The success of KBC's online bancassurance systems is reflected in a number of ways, such as in the continuously rising number of users. KBC-Online, CBC-Online and Centea-Online, combined, had more than 580 000 active customers at the end of 2007, 14% more than in the previous year.

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

Customer satisfaction

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

Despite these excellent results, KBC is not planning to rest on its laurels. In 2007, for instance, initiatives were devised regarding the client approach with the aim of further improving the way customers are received in the bank branches, and various resources were developed to support relationship management.

Activities in Central & Eastern Europe and Russia

Facts and figures, Central & Eastern Europe and Russia, 31-12-2007	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Romania	Serbia[3]	Russia
Customers (estimate)								
Bank customers (in millions)	3,0	0,2	0,9	1,0	0,2	-	0,1	0,2
Network								
Bank branches[1]	251	114	223	393	126	–	45	71
Assets under management								
Total (in billions of EUR)	6,0	0,8	2,6	2,8	-	-	-	-
Market share (estimate)								
Traditional bank products (loans and deposits)	21%	8%	10%	4%	3%	-	0,7%	0,5%
Investment funds	28%	12%	17%	4%	–	-	–	–
E-payment indicators								
Number of proprietary ATMs	637	131	370	382	107	-	14	64
Active subscribers to Internet and PC banking facilities	400 000	50 000	70 000	200 000	2 000	-	1 000	10 000
Loan portfolio								
Amount granted (in billions of EUR)	26,0	See Czech Republic	8,4	6,5	0,6	-	0,1	3,0
Population and expected GDP growth								
Population, 2007 (in millions)	10,2	5,4	10,0	38,5	7,3	22,3	10,2	141,4
Expected annual real GDP growth, 2008-2010	5,1%	6,5%	3,8%	5,5%	6,0%	5,9%	5,5%	5,7%

1 Corporate branches are counted separately, even if located in a retail branch.
2 Excluding acquisition of ČSOB (recognised in full under the Czech Republic).
3 Presence via sister company, KBC Insurance.

Network

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

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

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

Overall, the KBC group figures among the leading financial groups in Central and Eastern Europe, catering for around 5.5 million bank customers in the region.

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

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

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

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

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

Expansion into new Central and Eastern European countries and Russia

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

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

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

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

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

In July 2007, KBC Bank completed the acquisition of 95% of Absolut Bank in Russia for around 0.7 billion euros. IFC has retained ownership of the remaining 5%. With this acquisition, KBC is entering an emerging European market, which, as already mentioned, should open up additional growth prospects in the years ahead. Indeed, with a population of 141 million people, expected annual real GDP growth of 5 to 6% in the coming years, and proportionately very low market penetration of bank and insurance products, Russia offers considerable potential for growth. KBC believes that through Absolut Bank (one of the fastest growing banks in Russia), it will be able to capitalise on the expected growth in financial products. Accordingly, extra attention will be given to the further development of the retail and SME segment, which should account for around 45% of the total activity mix by 2010 (around 30% today). To this end, the number of branches will be increased significantly in the years ahead.

Merchant banking activities (outside Central & Eastern Europe and Russia)

Facts and figures, Merchant Banking	2006	2007
Customers (estimate)		
Corporate banking (Belgium)	19 000	19 000
Network		
KBC Bank corporate branches in Belgium, including branches catering for the social profit segment and CBC Banque *succursales*	33	33
KBC Bank branches in the rest of the world*, including representative offices	36	36
Assets under management		
Total (in billions of EUR)	0,7	2,2
Market share (estimate)		
Corporate lending (Belgium)	21%	22%
Loan portfolio		
Amount granted (in billions of EUR)	94,0	101,6

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

Corporate banking

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

Outside Belgium, the group has a select corporate banking presence through thirty-six branches, offices and subsidiaries of KBC Bank located primarily in Western Europe, but also in Southeast Asia and the US, that concentrate mainly on local midcap customers and customers that already do business with KBC's Belgian or Central and Eastern European network. Additionally, these establishments operate in certain niches, which may include government finance, health care, real estate, financial institutions, trade finance or acquisition finance.
In recent years, there have been few changes to the network abroad. In 2007, only one new branch was opened, in Spain (previously, there was only a representative office there), and in 2008 a new branch in Italy (Milan) is being considered.

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

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

Market activities

The market activities include all dealing room activities in Western Europe, the United States and the Far East, with the dealing room in Brussels accounting for the bulk of these activities. The group offers an extensive range of products to cope with interest rate and forex risks, ranging from simple products (deposits, forex spot transactions, forex and interest rate options, bonds, repos, etc.) to more exotic products, such as options, structured issues and Collateralised Debt Obligations (CDOs).
The group is also a prominent player on the primary Eurobond market, and in 2007 participated in more than 200 syndicated deals as lead, co-lead or co-manager, including deals in a number of Central and Eastern European currencies.
The group is also a major issuer on the international capital markets. For instance, in 2007, KBC raised almost 11 billion euros in cash under IFIMA's Euro Medium Term Note programme, guaranteed by KBC Bank. Moreover, the solvency of KBC Bank was strengthened by a tier-1 issue in the amount of 150 million pounds sterling.

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

Specific acquisitions and the expansion of activities

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

In 2007, for example, KBC Securities consolidated its position as market leader in Central and Eastern Europe by acquiring a number of brokers in the region: Swiss Capital (now KBC Securities Romania), Equitas (now KBC Securities Hungary), DZI Invest (Bulgaria), Baltic Investment Company (now KBC Securities Baltic Investment Company, with activities in the Baltic states and Russia), Indigo Capital (now KBC Securities Ukraine), Bastion (a Serbian corporate finance specialist; now KBC Securities Corporate Finance LLC), Senzal (now KBC Securities Beograd) and Hipobroker (now KBC Broker). As a result of this considerable expansion, KBC Securities was already generating around 45% of its 2007 net profit in the Central and Eastern Europe region.

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

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

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

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

E-services

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

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

Corporate social responsibility

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

KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in its *Principles for Socially Responsible Business*.

As a member of local CSR organisations and signatory to national and international CSR principles (including the United Nations *Global Compact* and the Luxembourg *Charte d'entreprise pour la responsabilité sociale et le développement durable*), KBC intends to enter into a proactive commitment vis-à-vis its stakeholders.

Since 2005, the group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on KBC staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles. Also in 2007, KBC's subsidiaries, K&H Bank in Hungary and ČSOB in the Czech Republic, published their own separate CSR reports for the first time.

More information can be found at www.kbc.com/social_responsibility and in the annual *KBC Corporate Social Responsibility Report*.

Value and risk management

Introduction

At KBC Group, a group-wide approach is taken to value and risk management, implying that the value and risk management of KBC Bank, as a subsidiary of KBC Group, is encompassed by this approach and inextricably linked to the value and risk management of other subsidiaries (such as KBC Insurance and KBP EPB). The section below focuses on the risk management of the banking activities.

Vision and principles (KBC Group)

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

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

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

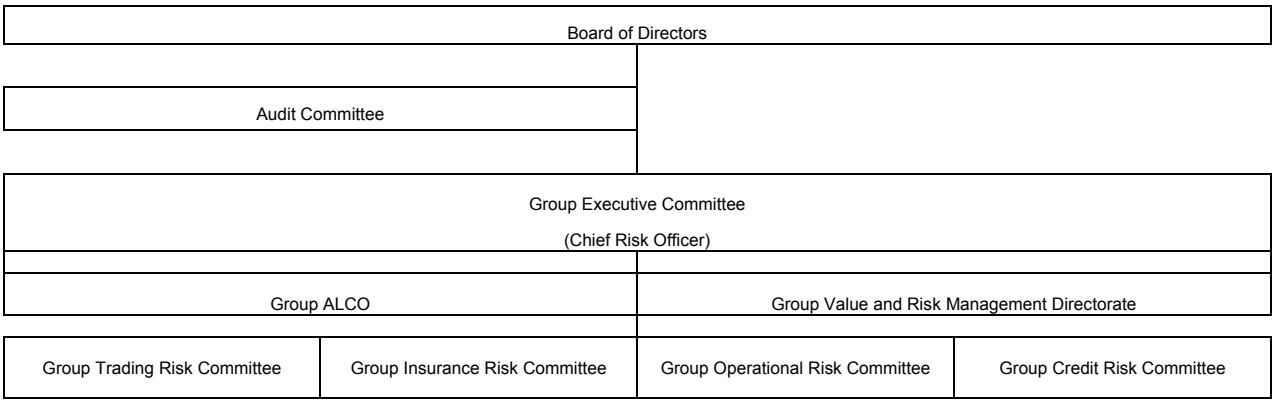
- The entire 'Vision and principles' section;
- The entire 'Risk governance model' section;
- The following parts of the 'Credit risk management' section:
  - Description
  - Managing credit risk, banking
  - The 'Loan portfolio' table and the 'Other credit exposure' table (audited parts are indicated in the footnote to the tables)
- The following parts of the 'Asset/Liability management' section:
  - Description
  - 'Managing ALM risk'
  - 'ALM in 2007: Interest rate risk' (first three paragraphs)
  - 'ALM in 2007: Foreign exchange risk'
- The entire 'Liquidity risk management' section;
- The entire 'Market risk management' section (unless otherwise indicated)
- The following parts of the 'Solvency' section:
  - Description
  - 'Managing solvency'
  - 'Solvency in 2007' (first two paragraphs and the parts of the table indicated in the footnotes)

Risk governance model (KBC Group)

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

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

  Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary), to roll out the risk management framework.
- The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.
- The Group Internal Audit division is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.
- Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.
- The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as *validating staff* is different from *modelling staff.*



Credit risk management

Description

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

Managing credit risk, banking

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

Credit risk management at transactional level

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

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

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

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

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

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

Credit risk management at portfolio level

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

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

Overview of the loan portfolio, banking

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

At the end of 2007, the total portfolio of credit granted came to 204 billion euros, 14% more than a year earlier.

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

Loan portfolio	31-12-2006	31-12-2007
Total loan portfolio (in billions of EUR)		
Amount granted	182,0	204,3
Amount outstanding	135,3	159,9
Loan portfolio breakdown by area of activity (as a % of the portfolio of credit granted)		
Belgium (retail and private banking)	30%	29%
Central & Eastern Europe and Russia	19%	22%
Merchant Banking (excluding Central & Eastern Europe and Russia)	52%	50%
Total	100%	100%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)[1]		
Loans	88%	88%
Working capital credit lines	[1]	39%
Investment credit	[1]	49%
Mixed lines	[1]	0%
Guarantee credit	6%	5%
Corporate bonds	3%	4%
Bank bonds	4%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[5]		
Private individuals	27%	28%

Financial and insurance services	15%	14%
Governments	3%	4%
Corporates	55%	55%
Non-financial services	9%	10%
Retail and wholesale trade	8%	8%
Real estate	6%	7%
Construction	4%	4%
Automobile industry	3%	3%
Chemical industry	2%	2%
Electricity	3%	2%
Agriculture, stock farming and fishing	2%	2%
Food industry	2%	2%
Metals	2%	2%
Other	14%	12%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio[2], as a % of Exposure at Default)[6]		
PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%)	24%	25%
PD 2 (0.10% – 0.20%)	15%	15%
PD 3 (0.20% – 0.40%)	21%	14%
PD 4 (0.40% – 0.80%)	14%	17%
PD 5 (0.80% – 1.60%)	13%	17%
PD 6 (1.60% – 3.20%)	6%	7%
PD 7 (3.20% – 6.40%)	5%	4%
PD 8 (6.40% – 12.80%)	1%	2%
PD 9 (highest risk, 12.80% – 100.00%)	1%	1%
Total	100%	100%
Impaired loans[3] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	3 257	3 310
Specific impairment	1 933	1 943
Portfolio-based impairment	222	185
Loan loss ratio, negative figures indicate a positive impact on profit		
Belgium (retail and private banking)	0.07%	0.13%
Central & Eastern Europe and Russia	0.58%	0.26%
Merchant Banking (excluding Central & Eastern Europe and Russia)	-0.01%	0.02%
Total	0.14%	0.11%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2 157	2 329
Specific impairment for non-performing loans	1 488	1 456
Non-performing ratio		
Belgium (retail and private banking)	1.5%	1.6%
Central & Eastern Europe and Russia	2.4%	2.1%
Merchant Banking (excluding Central & Eastern Europe and Russia)	1.3%	1.0%
Total	1.6%	1.5%
Cover ratio		
Specific impairment for non-performing loans/outstanding non-performing loans	69%	63%
Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans	100%	91%

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

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

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

4 For the Czech Republic and Slovakia, the loan loss ratio at 31 December 2007 came to 0.27%, for Hungary to 0.62%, for Poland to -0.34% and for Russia to 0.21%.
5 Audited figures.
6 Audited figures (except for the range or probability of default).

Other credit exposure

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

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

Trading book securities. Issuer risk (potential loss on default by the issuer) in trading exposure came to 3.7 billion euros at the end of 2007. KBC Financial Products (KBC FP) accounted for 0.8 billion euros of this total. At KBC FP, issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Moreover, only counterparty risk arising with long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) measured on the basis of the market value of the securities came to 2.9 billion euros. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposures shown in the table concern the issuer risk measured in the way described in this paragraph. The exposure to asset-backed securities in the trading book is not included in this figure (see 'Credit-linked investments and subprime exposure').

Counterparty risk in interprofessional transactions (deposits with professional counterparties and derivatives trading). This reflects the potential loss on transactions should the counterparty default on its obligations. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. At the end of 2007, the group's total pre-settlement risk came to some 31 billion euros. Deposits account for slightly less than 40% of this amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Moreover, close-out netting and collateral techniques are used wherever possible. For netting to apply, derivatives transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements. Repo transactions can only be netted if a GMRA has been concluded. In addition, nettability rules have been established for all relevant jurisdictions and all relevant products, based on legal opinions published by ISDA. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments came to 32.1 billion euros at the end of 2007 (measured in terms of book value) and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.2 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see ALM). However, there are limits for this type of credit exposure, as well, certainly for governments with a lower than 'AA' internal rating.

Other credit exposure[1]	31-12-2006	31-12-2007
Short-term commercial transactions		
Amount (in billions of EUR)[4]	1.3	1.8
By area of activity, %		
Belgium (retail and private banking)	3%	3%
Central & Eastern Europe and Russia	7%	6%
Merchant Banking (excluding Central & Eastern Europe and Russia)	90%	91%
Total	100%	100%
Issuer risk[2]		
Amount (in billions of EUR)[4]	2.3	3.7
By area of activity, %		
Belgium (retail and private banking)	0%	0%
Central & Eastern Europe and Russia	6%	5%
Merchant Banking (excluding Central & Eastern Europe and Russia)	94%	95%
Total	100%	100%
Counterparty risk in interprofessional transactions[3]		
Amount (in billions of EUR)[4]	22.3	31.0
By area of activity, %		
Belgium (retail and private banking)	5%	0%
Central & Eastern Europe and Russia	16%	18%
Merchant Banking (excluding Central & Eastern Europe and Russia)	79%	82%
Total	100%	100%

Government bonds in the investment portfolio		
Amount (in billions of EUR)[4]	36.6	32.1
By area of activity, %		
Belgium (retail and private banking)	8%	8%
Central & Eastern Europe and Russia	21%	28%
Merchant Banking (excluding Central & Eastern Europe and Russia)	71%	64%
Total	100%	100%

1 Figures do not include Absolut Bank and Economic and Investment Bank (except those for 'Government bonds in the investment portfolio').
2 Excluding OECD government bonds.
3 After deduction of collateral and netting benefits. The breakdown by area of activity is an approximation.
4 Audited figures.

Country risk

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

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

Method used to calculate country risk

The following risks are included:

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

In principle, individual transactions are charged against country limits according to the following rules:

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

Country risk (excluding local-currency transactions)* In millions of EUR (31-12-2007)	Total	Western Europe (excl. euro area)	Central and Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International institutions
By transaction type										
IFC 'B' loans	41	2	1	26	0	0	5	1	0	6
Performance risks	1063	84	507	31	11	54	223	153	2	0
Other loans	18 708	4 976	7 791	2 271	2 566	516	287	139	135	27
Bonds and shares	8 929	3 930	2 329	531	1 473	106	322	0	76	161
Interprofessional transactions (weighted)	5 028	2 389	1 014	947	273	141	243	1	12	8
Medium- and long-term export finance	164	4	39	6	0	5	8	102	0	0
Short-term commercial transactions	1 484	42	283	415	11	529	108	95	1	0
Total	35 418	11 428	11 964	4 227	4 333	1 350	1 196	490	227	203
Breakdown by remaining tenor										
Not more than 1 year	11 918	3 074	3 959	2 661	860	683	477	112	56	35
More than 1 year	23 500	8 353	8 005	1 566	3 474	667	719	378	171	168
Total	35 418	11 428	11 964	4 227	4 333	1 350	1 196	490	227	203

* Excluding Economic and Investment Bank (Bulgaria).

Internal credit risk models and Basel II

In order to quantify credit risks, the group has developed various rating models, both for the purpose of determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in such areas as pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the group (for instance, the

models for governments, banks, large companies and project finance), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.

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

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

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

Credit-linked investments and subprime exposure

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

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

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

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

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

The 'other portfolios' have no subprime exposure.

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

Credit-linked investments*, KBC group (31 December 2007)

Description	Amount (in billions of EUR)	Rating of securities held	Of which subprime RMBS	Credit losses incurred	Value adjustments due to marking-to-market of the instruments (in millions of EUR)
Main CDO portfolio	4.2	100% investment-grade	13% subprime RMBS underlying	None	In P/L: 103 (pre-tax) or 67 (after tax)
Atomium portfolio	2.0	100% investment-grade (100% AAA)	33% subprime RMBS	None	In equity: 107 (pre-tax) or 72 (after tax) **
Other portfolios	6.0	100% investment-grade	No subprime exposure	None	

* Excluding the notes held by KBC in its in-house securitisation vehicle, Home Loan Invest (set up primarily for treasury purposes).
** There was also a limited impact on the income statement (13 million euros (before tax) or 8 million euros (after tax)) where the trading book is concerned.

Exposure to credit insurers

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

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

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

Asset/Liability management

Description

Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:

- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,
- inflation risk,
- credit risk (limited to the investment portfolios).

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

Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad).

Managing ALM risk

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

A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM risk management; similar teams exist at the subsidiaries outside the euro area.

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

The main building blocks of KBC's ALM framework are:

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

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

KBC Bank ALM risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)*

In billions of EUR	31-12-2006	31-12-2007
Interest rate risk	1.02	0.65
Equity risk	0.14	0.20
Real estate risk	0.02	0.03
Other risks**	0.01	0.01
Total diversified VAR (group)	1.19	0.91

* Excluding Absolut Bank and a number of small group companies.
** Foreign exchange risk, inflation risk, counterparty risk and interest rate volatility risk.

ALM in 2007: Interest rate risk

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

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

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

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

BPV of the ALM book, KBC Bank*

In millions of EUR

Average, 1Q 2006	75
Average, 2Q 2006	87
Average, 3Q 2006	89
Average, 4Q 2006	74
31-12-2006	67
Maximum in 2006	94
Minimum in 2006	65
Average, 1Q 2007	70
Average, 2Q 2007	54
Average, 3Q 2007	41
Average, 4Q 2007	41
31-12-2007	43
Maximum in 2007	74
Minimum in 2007	37

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

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

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

Interest sensitivity gap of the ALM book (including derivatives), KBC Bank*

In millions of EUR

	≤ 1 month	1–3 months	3-12 months	1–5 years	5-10 years	> 10 years	Non-interest-bearing	Total
31-12-2006 (derivatives included in inflows and outflows)								
Cash inflows	66 219	39 924	58 902	109 792	49 133	20 506	21 517	365 994
Cash outflows	77 633	34 177	59 790	112 979	41 560	16 157	23 697	365 994
Interest sensitivity gap	-11 414	5 746	-887	-3 186	7 572	4 349	-2 180	-
31-12-2007 (derivatives reported separately)								
Cash inflows	35 952	17 181	30 396	63 168	31 162	16 179	20 803	214 841
Cash outflows	54 404	20 438	29 984	58 513	20 907	7 041	23 553	214 841
Derivatives (interest-linked)	11 498	6 843	9	-6 266	-6 158	-5 926	-	-
Interest sensitivity gap	-6 954	3 586	420	-1 611	4 097	3 212	-2 750	-

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

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

Impact of a parallel 1% increase in the yield curve for KBC Bank*

In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value	
	2006	2007	2006	2007
Total	53	60	-728	-459

* Excluding Absolut Bank and a number of small group companies.

ALM in 2007: Equity risk

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

Impact of a 10% drop in the equity markets*

In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value	
	2006	2007	2006	2007
Total	-37	-45	-46	-84

* Excluding Absolut Bank and a number of small group companies. The figures for 2006 have been restated.

ALM in 2007: Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term.

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

Impact of a 10% drop in real estate prices*

In millions of EUR

	Impact on economic value	
	2006	2007
Total	-70	-73

* Excluding Absolut Bank and a number of small group companies.

ALM in 2007: Foreign exchange risk

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

Liquidity risk management

Description

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

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

Managing liquidity risk

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

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

- Contingency liquidity risk:

  Contingency liquidity risk is assessed on the basis of several liquidity stress tests, which measure how the liquidity buffer of KBC group banks changes under stressed scenarios. The liquidity buffer is based on assumptions regarding liquidity outflows (e.g., retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.), as well as on assumptions regarding inflows resulting from actions to increase liquidity (e.g., 'repoing' the bond portfolio, reducing unsecured interbank lending, etc.).

  The liquidity buffer should be sufficient to cover liquidity needs (net cash and collateral outflows) over (a) a period that is required to restore market confidence in the group following a KBC-specific event and (b) a period that is required for markets to stabilise after a general market event. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core business of the banking group.

- Structural liquidity risk

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

KBC Bank: funding sources	31-12-2006	31-12-2007
Deposits from credit institutions and investment firms*	24%	28%
Deposits from customers	53%	51%
Non-subordinated debt securities	21%	19%
Subordinated debt	2%	3%
Total	100%	100%
In millions of EUR	223 327	252 304

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

- Operational liquidity risk

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

  The table below illustrates liquidity risk by grouping the cash inflows and cash outflows on the balance sheet date according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. The 'not defined' bucket comprises mainly deposits that are

payable on demand, as well as the undrawn margin on confirmed credit lines. The 2006 figures were restated in order to comply with the new IFRS 7 requirements.

Liquidity risk, KBC Bank*

In millions of EUR

	≤ 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Not defined	Total
31-12-2006								
Cash inflows	86 359	28 437	33 512	66 452	34 817	25 091	35 507	310 175
Cash outflows	105 884	32 982	30 196	25 048	8 592	7 722	140 132	350 556
Net liquidity gap	-19 524	-4 545	3 316	41 404	26 225	17 370	-104 625	-40 381
31-12-2007								
Cash inflows	90 441	41 584	42 241	64 361	32 852	26 091	45 514	343 085
Cash outflows	107 598	44 357	32 034	34 401	10 986	9 390	150 734	389 500
Net liquidity gap	-17 157	-2 772	10 207	29 960	21 866	16 701	-105 220	-46 415

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

Market risk management

Description

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

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

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

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

Risk governance

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

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

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

Managing market risk

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

KBC uses the historical simulation method (HVAR), observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). In 2007, KBC switched from a data window of 250 to 500 scenario dates, thereby increasing stability without disregarding changing market conditions.

The VAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.

The VAR model is subject to limitations as well, given the fact that it cannot encompass all potential extreme events. Therefore, VAR calculations are supplemented by extensive stress-tests, the results of which are communicated to the Group Trading Risk Committee. Whereas the VAR model captures potential losses under normal market conditions, stress-tests show the impact of exceptional circumstances and events with a low degree of probability that are not always reflected in the ordinary risk indicators. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market.

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

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

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

Risk analysis and quantification

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

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

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

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 21.

Market risk (VAR, 1-day holding period)*

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

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

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

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

Risk infrastructure

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

Operational risk management

Description

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

Managing operational risk

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

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

The development and implementation of this framework is supported by an extensive operational risk governance model. The framework covers all banking and insurance entities of the group, as well as all supporting activities and

services that are fully or proportionally consolidated or that are controlled by the parent company. This framework is gradually being implemented in all the new entities of the KBC group.

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

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

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

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

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

The building blocks for managing operational risks

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

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

Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under pillar 1 of Basel II. The operational risk capital for KBC Bank totalled 0.99 billion euros at the end of 2007.

Solvency

Description

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

Managing solvency

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

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

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

Solvency in 2007, KBC Bank (consolidated)

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

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

In millions of EUR	31-12-2006	31-12-2007	
	Basel I	Basel I	Basel II
Total regulatory capital, after profit appropriation	13 728	15 543	15 723
Tier-1 capital*	10 407	11 525	10 942
Parent shareholders' equity	10 603	12 342	12 342
Intangible fixed assets (-)	-123	-197	-197
Goodwill on consolidation (-)	-709	-1 811	-1 811
Preference shares, hybrid tier-1	1 561	1 694	1 694
Minority interests	529	584	584
Mandatorily convertible bonds	-186	-186	-186
Revaluation reserve, available-for-sale assets (-)	-555	46	46
Hedging reserve, cashflow hedges (-)	-46	-73	-73
Minority interests in available-for-sale reserve and hedging reserve (-)	-7	2	2
Dividend payout (-)	-661	-876	-876
Items to be deducted (-)	–	–	-583
Tier-2- and tier-3 capital	3 321	4 018	4 782
Mandatorily convertible bonds	186	186	186
Perpetuals (including hybrid tier-1 not used in tier-1 capital)	712	581	581
Revaluation reserve, available-for-sale shares (at 90%)	433	154	154
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	3	2	2
IRB provision excess (+)	–	–	139

Subordinated liabilities	3 311	4 285	4 285
Tier-3 capital	14	18	18
Items to be deducted (-)	-1 339	-1 208	-583
Total weighted risks	123 127	147 444	128 536
Credit risk	113 264	136 677	107 461
Market risk	9 863	10 767	12 329
Operational risk	–	–	8 747
Solvency ratios			
Tier-1 ratio	8,5%	7,8%	8,5%
CAD ratio	11,1%	10,5%	12,2%

* Audited figures.

The Board of Directors

Composition of the Board of Directors on 31 December 2007

Composition of the Board of Directors on 31 December 2007

Name	Position	Period on the Board in 2007	End, current term of office
HUYGHEBAERT Jan	Chairman	full year	2010
PHILIPS Luc	Deputy Chairman	full year	2010
BERGEN André	Executive Director, President of the Executive Committee	full year	2010
AGNEESSENS Herman	Executive Director	full year	2010
DEFRANCQ Chris	Executive Director	full year	2010
FLORQUIN Frans	Executive Director	full year	2010
SEGERS Guido	Executive Director	full year	2009
VANHEVEL Jan	Executive Director	full year	2010
VERWILGHEN Etienne	Executive Director	full year	2010
DE WILDE Julien	Independent Director	full year	2010
DE BECKER Sonja	Non-Executive Director	full year	2009
DEPICKERE Franky	Non-Executive Director	full year	2011
KONINGS Pierre	Non-Executive Director	full year	2009
MORLION Lode	Non-Executive Director	full year	2009
ORLENT-HEYVAERT Marita	Non-Executive Director	full year	2009
PEETERS Paul	Non-Executive Director	full year	2009
SAP Gustaaf	Non-Executive Director	full year	2009
VANDEN AVENNE Patrick	Non-Executive Director	full year	2009
VANTIEGHEM Germain	Non-Executive Director	full year	2010
WAUTERS Dirk	Non-Executive Director	full year	2009
WITTEMANS Marc	Non-Executive Director	full year	2010

Auditor: Ernst & Young, Bedrijfsrevisoren bcvba, represented by Daniëlle Vermaelen and/or Jean-Pierre Romont

Consolidated annual accounts

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

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

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank NV and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 december 2007, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 december 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 309.476 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 2.261 million.

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

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

Responsibility of the statutory auditor

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

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

Opinion

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

Additional comments

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

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

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

Brussels, 20 March 2008

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

Jean-Pierre Romont
Partner

Danielle Vermaelen
Partner

08JPR0067

Consolidated income statement

In millions of EUR	Note	2006	2007
Net interest income	3	3 271	3 179
Dividend income	4	139	126
Net (un)realised gains from financial instruments at fair value through profit or loss	5	1 468	1 768
Net realised gains from available-for-sale assets	6	181	189
Net fee and commission income	7	1 648	1 897
Other net income	8	451	416
TOTAL INCOME		7 158	7 576
Operating expenses	9	- 3 872	- 4 140
staff expenses	10	- 2 190	- 2 276
general administrative expenses		- 1 510	- 1 669
depreciation and amortisation of fixed assets		- 206	- 222
provisions for risks and charges		34	27
Impairment	11	- 169	- 212
on loans and receivables		- 176	- 148
on available-for-sale assets		- 2	- 50
on goodwill		0	0
on other		9	- 14
Share in results of associated companies	12	43	59
PROFIT BEFORE TAX		3 160	3 283
Income tax expense	13	- 759	- 750
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		2 401	2 534
attributable to minority interest		318	273
attributable to equity holders of the parent		**2 083**	**2 261**

- Dividend: the Board of Directors will propose to the General Meeting of Shareholders that a gross dividend of 3.8581 euros be paid out per share entitled to dividend. This implies that total dividends to be paid out will come to 1 590 817 294.43 euros. Of this, 715 006 971.29 euros were already paid out as an interim dividend on 16 November 2007. The final dividend comes to 875 810 323.14 euros.
- For changes in the presentation of the income statement, see Note 1 a.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2006	31-12-2007
Cash and cash balances with central banks		2 386	2 898
Financial assets	14-21	265 766	296 702
Held for trading		67 024	73 051
Designated at fair value through profit or loss		46 258	35 985
Available for sale		29 095	26 543
Loans and receivables		113 751	151 304
Held to maturity		9 313	9 296
Hedging derivatives		325	524
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	- 175	- 223
Accrued interest income	14	2 299	2 918
Tax assets	23	638	659
Current tax assets		117	102
Deferred tax assets		521	556
Non-current assets held for sale and disposal groups		53	41
Investments in associated companies	24	535	646
Investment property	25	225	448
Property and equipment	25	1 544	1 760
Goodwill and other intangible assets	26	833	2 008
Other assets	22	1 634	1 618
TOTAL ASSETS		275 738	309 476

LIABILITIES AND EQUITY (in millions of EUR)		31-12-2006	31-12-2007
Financial liabilities	14,15,17,21	256 608	287 170
Held for trading		36 880	41 542
Designated at fair value through profit or loss		47 567	37 082
Measured at amortised cost		172 112	208 427
Hedging derivatives		49	118
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	0	0
Accrued interest expense	14	1 572	2 006
Tax liabilities	23	451	467
Current tax liabilities		381	388
Deferred tax liabilies		70	79
Non-current liabilities held for sale and liabilities associated with disposal groups		0	0
Provisions for risks and charges	27	407	401
Other liabilities	28, 29	4 534	5 519
TOTAL LIABILITIES		263 570	295 562
Total equity		12 168	13 914
Parent shareholders' equity	30	10 603	12 342
Minority interests		1 565	1 572
TOTAL LIABILITIES AND EQUITY		275 738	309 476

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

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Other equity (Manda-torily convertible bonds)	Treasury shares	Revalua-tion reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Transla-tion differen-ces	Parent share-holders' equity	Minority interests	Total equity
31-12-2006											
Balance at the beginning of the period	3 763	490	436	0	837	3	4 757	89	10 375	1 740	12 115
Fair value adjustments before tax	0	0	0	0	- 362	68	0	0	- 294	0	- 294
Deferred tax on fair value changes	0	0	0	0	185	- 25	0	0	160	0	160
Transfer from reserve to net profit											
Impairment losses	0	0	0	0	0	0	0	0	0	0	0
Net gains/losses on disposal	0	0	0	0	- 112	0	0	0	- 112	0	- 112
Deferred income tax	0	0	0	0	7	0	0	0	7	0	7
Transfer from hedging reserve to net profit*											
Gross amount	0	0	0	0	0	0	0	0	0	0	0
Deferred income taxes	0	0	0	0	0	0	0	0	0	0	0
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	- 18	- 18	0	- 18
Subtotal, recognised directly in equity	**0**	**0**	**0**	**0**	**- 282**	**43**	**0**	**- 18**	**- 257**	**0**	**- 257**
Net profit for the period	0	0	0	0	0	0	2 083	0	2 083	318	2 401
Total income and expense for the period	**0**	**0**	**0**	**0**	**- 282**	**43**	**2 083**	**- 18**	**1 826**	**318**	**2 144**
Dividends	0	0	0	0	0	0	- 1 357	0	- 1 357	0	- 1 357
Capital increase	0	0	2	0	0	0	- 2	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of own shares	0	0	0	0	0	0	0	0	0	- 493	- 494
Change in minority interests	0	0	- 250	0	0	0	0	0	- 250	0	- 250
Other	0	0	0	0	0	0	9	0	9	0	9
Total change	**0**	**0**	**- 248**	**0**	**- 282**	**43**	**734**	**- 18**	**228**	**- 175**	**53**
Balance at the end of the period	**3 763**	**490**	**188**	**0**	**555**	**46**	**5 491**	**71**	**10 603**	**1 565**	**12 168**
of which revaluation reserve for shares					482						
of which revaluation reserve for bonds					73						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups	0	0	0	0	0	0	0	0	0	0	0

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

31-12-2007											
Balance at the beginning of the period	3 763	490	188	0	555	46	5 491	71	10 603	1 565	12 168
Fair value adjustments before tax	0	0	0	0	- 288	82	0	0	- 206	0	- 206
Deferred tax on fair value changes	0	0	0	0	60	- 42	0	0	18	0	18
Transfer from reserve to net profit*											
Impairment losses	0	0	0	0	0	0	0	0	0	0	0
Net gains/losses on disposal	0	0	0	0	- 435	0	0	0	- 435	0	- 435
Deferred income tax	0	0	0	0	61	0	0	0	61	0	61
Transfer from hedging reserve to net profit											
Gross amount	0	0	0	0	0	- 16	0	0	- 16	0	- 16
Deferred income taxes	0	0	0	0	0	4	0	0	4	0	4
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	1	0	0	0	1	0	1
Other	0	0	- 2	0	0	0	2	- 60	- 60	0	0
Subtotal, recognised directly in equity	**0**	**0**	**- 2**	**0**	**- 601**	**28**	**2**	**- 60**	**- 634**	**0**	**- 634**
Net profit for the period	0	0	0	0	0	0	2 261	0	2 261	273	2 534
Total income and expense for the period	**0**	**0**	**- 2**	**0**	**- 601**	**28**	**2 263**	**- 60**	**1 627**	**273**	**1 900**
Dividends	0	0	0	0	0	0	- 1 389	0	- 1 389	0	- 1 389
Capital increase	267	1 233	0	0	0	0	0	0	1 500	0	1 500
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 266	- 266
Total change	**267**	**1 233**	**- 2**	**0**	**- 601**	**28**	**874**	**- 60**	**1 738**	**7**	**1 745**
Balance at the end of the period	**4 030**	**1 723**	**186**	**0**	**- 46**	**73**	**6 365**	**11**	**12 342**	**1 572**	**13 914**
of which revaluation reserve for shares					171						
of which revaluation reserve for bonds					- 216						
of which revaluation reserve for other assets than bonds and shares					- 1						
of which relating to non-current assets held for sale and disposal groups	0	0	0	0	0	0	0	0	0	0	0

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

- For information on the total number of shares (both ordinary shares and other equity instruments), see Note 30.

Consolidated cashflow statement

In millions of EUR	31-12-2006	31-12-2007
Profit before tax	3 160	3 283
Adjustments for:	- 2 389	- 231
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	199	287
Profit/Loss on the disposal of investments	- 135	- 71
Change in impairment on loans and advances	176	148
Change in gross technical provisions - insurance	0	0
Change in the reinsurers' share in the technical provisions	0	0
Change in other provisions	- 34	- 27
Unrealised foreign currency gains and losses and valuation differences	- 2 553	- 508
Income from associated companies	- 43	- 59
Cash flows from operating profit before tax and before changes in operating assets and liabilities	770	3 052
Changes in operating assets (excl. cash & cash equivalents) (1)	13 641	- 26 188
Changes in operating liabilities (excl. cash & cash equivalents) (2)	- 5 925	13 985
Income taxes paid	- 723	- 672
Net cash from (used in) operating activities	7 763	- 9 822
Purchase of held-to-maturity securities	- 1 761	- 1 108
Proceeds from the repayment of held-to-maturity securities at maturity	633	1 169
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	- 734	- 774
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	60	0
Purchase of shares in associated companies	0	- 69
Proceeds from the disposal of shares in associated companies	72	0
Dividends received from associated companies	15	20
Purchase of investment property	0	- 32
Proceeds from the sale of investment property	1	0
Purchase of intangible fixed assets (excl. goodwill)	- 63	- 72
Proceeds from the sale of intangible fixed assets (excl. goodwill)	51	4
Purchase of property and equipment	- 404	- 317
Proceeds from the sale of property and equipment	332	122
Net cash from (used in) investing activities	- 1 798	- 1 058
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	6 883	7 117
Proceeds from or repayment of subordinated liabilities	2	1 356
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	0	1 500
Proceeds from the issuance of preference shares	0	0
Dividends paid	- 1 394	- 1 480
Net cash from (used in) financing activities	5 491	8 494
Net increase or decrease in cash and cash equivalents	11 456	- 2 386
Cash and cash equivalents at the beginning of the period	5 396	16 706
Effects of exchange rate changes on opening cash and cash equivalents	- 146	140

Cash and cash equivalents at the end of the period	16 706	14 459
Additional information (3)		
Interest paid	- 7 697	- 10 703
Interest received	10 968	13 882
Dividends received (including equity method)	154	146
Components of cash and cash equivalents (4)	16 706	14 459
Cash and cash balances with central banks	1 348	2 898
Loans and advances to banks repayable on demand and term loans to banks < 3 months	23 439	24 729
Deposits from banks repayable on demand and redeemable at notice	- 8 081	- 13 168

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

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

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and disinvestments of consolidated subsidiaries in 2006 and 2007 are set out below.
- For a more detailed list (including all major changes in ownership percentages), see Note 36.
- All (material) acquisitions and divestments of group companies in 2007 were paid for in cash.

Main acquisitions and divestments

	31-12-2006	31-12-2007		
In millions of EUR	KBC Asset Management	AKB "Absolut Bank" (ZAO)	EI Bank	International Factors NV
Acquistion (A) / Disposal (D)	A	A	A	A
Percentage of shares bought or sold	7,11%	95,00%	75,58%	50%
Segment	Banking	Banking	Banking	Banking
Assets & liabilities bought or sold				
Cash and cash balances with central banks	210	74	130	0
Financial assets				
Held for trading		226	34	
Designated at fair value through profit or loss		0	0	
Available for sale	504	25	5	0
Loans and receivables	83	2 024	668	355
Held-to-maturity investments		0	0	
Hedging derivatives		0	0	
of which: cash and cash equivalents		74	424	0
Financial liabilities				
Held for trading		1	0	0
Designated at fair value through profit or loss		0	0	0
Measured at amortised cost	0	1 623	835	315
Hedging derivatives		0	0	0
of which: cash and cash equivalents		- 12	- 3	0
Gross technical provisions		0	0	
Purchase price or sale price	- 162	698	297	36
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	48	- 636	123	- 36

Notes on the accounting policies

Note 1 a: Statement of compliance

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

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

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

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

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

In 2007, KBC adjusted the presentation of the financial statements to make them correspond more closely with the Belgian prudential reporting presentation for banks and to comply with IFRS 7 requirements.
The main changes concern the balance sheet, which will be presented on a portfolio basis from 2007 (i.e. according to the IAS 39 classification system) instead of on a product basis. In order to retain information per product, financial assets and liabilities have been broken down on a portfolio and product basis in Note 14.
Changes in the way the income statement has been presented are limited, and include a further breakdown of operating expenses (into staff expenses, general administrative expenses, depreciation and amortisation of fixed assets and provisions for risks and charges). In addition, the 'Net post-tax income from discontinued operations' heading has been moved from the components of 'Total income' to just before 'Profit after tax' and the presentation of minority interests in net profit after tax adjusted.
Changes have also been made to a number of notes, with – among other things – breakdowns being given on a portfolio basis instead of a product basis, to correspond with the changes made to the way in which the balance sheet and income statement are presented.

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

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

- Loans and receivables (L&R). These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Held-to-maturity assets (HTM). These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.

- Financial assets at fair value through profit or loss. This category includes held-for-trading (HFT) assets and any other financial assets designated at fair value through profit or loss (FIFV). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other assets initially recognised at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use this fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

- Available-for-sale assets (AFS). These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.

- Financial liabilities:
  - Held-for-trading liabilities. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.
  - Financial liabilities designated at fair value through profit or loss (FIFV). These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as for FIFV assets.
  - Other financial liabilities. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.
- *Hedging derivatives.* These are derivatives used for hedging purposes.

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

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical

method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.

- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD X LGD X EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD: the time horizon of the PD has been shortened based on the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
  When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.
  Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
  Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
  Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, evidence of impairment is determined on the basis of a set of coherent indicators and the impairment is calculated based on an assessment of the recoverable amount of the acquisition cost of the packages of shares in portfolio. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.

- Derivatives. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- Amounts owed. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- Embedded derivatives. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if, when KBC obtains the contract, the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- Hedge accounting. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. The relevant conditions are as follows: the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from interest rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  Fair value hedges for a portfolio of interest rate risk (portfolio hedge of interest rate risk) are applied by KBC to hedge the interest rate risk for a portfolio of loans with interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts.* These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments ('market value adjustments').* Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.

- *Day 1 profits.* When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. Day 1 profit is recognised for structuring CDOs. However, a portion is reserved and is released in profit or loss over the life and at maturity of the CDOs.

d Goodwill and other intangible assets

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

all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment (including investment property)

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

f Pension liabilities

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

g Tax liabilities

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

h Provisions

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

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.

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

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding

minority interests are deducted from equity. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

l Exchange rates used

	Exchange rate at 31-12-2007		Exchange rate average in 2007	
	1 EUR = … currency	Change from 31-12-2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26,63	3,2%	27,77	2,0%
GBP	0,733	-8,4%	0,685	-0,3%
HUF	253,7	-0,8%	251,3	5,1%
PLN	3,594	6,6%	3,785	3,1%
SKK	33,58	2,5%	33,78	10,1%
USD	1,472	-10,5%	1,373	-8,4%

k Changes made to accounting policies in 2007

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

Notes on segment reporting

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

Under IFRS, the primary segment reporting format used by KBC Bank is based on the bank's legal structure. KBC Bank distinguishes between the following primary segments:

- Banking: KBC Bank and its subsidiaries (subsidiary banks);
- Asset management: KBC Asset Management and its subsidiaries;
- Leasing: KBC Lease and its subsidiaries;
- Equity business: KBC Financial Products, KBC Securities and KBC Private Equity;
- Other: Mainly smaller subsidiaries that do not belong to the above segments;
- Intersegment eliminations : Intersegment transactions are transactions conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g., Net interest income), the balance of the intragroup transactions for these items is limited. Intersegment transfers are measured on the basis actually used to price the transfers.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).

The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

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

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	Interseg-ment elimina-tions	KBC Bank Consolida-ted
INCOME STATEMENT FY 2006							
Net interest income	3 218	15	102	- 251	189	- 3	3 271
Dividend income	52	7	0	80	1	0	139
Net (un)realised gains from financial instruments at fair value through profit or loss	377	10	1	1 082	- 2	0	1 468
Net realised gains from available-for-sale assets	174	7	0	0	0	0	181
Net fee and commission income	1 143	408	- 13	78	34	- 1	1 648
Other net income	417	6	25	6	29	- 32	451
TOTAL INCOME	5 380	453	116	995	251	- 37	7 158
Operating expenses*	- 3 063	- 73	- 70	- 625	- 78	37	- 3 872
Staff expenses	- 1 566	- 40	- 31	- 527	- 26	0	- 2 190
General administrative expenses	- 1 346	- 33	- 35	- 89	- 43	37	- 1 510
Depreciation and amortisation of fixed assets	- 183	- 1	- 2	- 11	- 9	0	- 206
Provisions for risks and charges	33	0	- 1	2	0	0	34
Impairment	- 141	0	- 9	- 7	- 11	0	- 169
on loans and receivables	- 149	0	- 9	- 6	- 11	0	- 176
on available-for-sale assets	- 2	0	0	- 1	0	0	- 2
on goodwill	0	0	0	0	0	0	0
on other	9	0	0	0	0	0	9
Share in results of associated companies	41	0	0	1	1	0	43
PROFIT BEFORE TAX	2 217	380	37	364	162	0	3 160
Income tax expense	- 537	- 94	- 12	- 103	- 12	0	- 759
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 680	286	25	261	149	0	2 401
attributable to minority interest	53	138	0	35	92	0	318
attributable to equity holders of the parent	1 627	148	25	226	57	0	2 083
*of which non-cash expenses :	- 150	- 1	- 3	- 9	- 9		- 172
depreciation and amortisation of fixed assets	- 183	- 1	- 2	- 11	- 9		- 206
other	33	0	- 1	2	0		34
INCOME STATEMENT FY 2007							
Net interest income	3 335	23	116	- 473	180	- 2	3 179
Dividend income	40	7	0	76	3	0	126
Net (un)realised gains from financial instruments at fair value through profit or loss	537	1	- 1	1 228	3	0	1 768
Net realised gains from available-for-sale assets	183	4	0	0	1	0	189
Net fee and commission income	1 249	469	- 10	151	44	- 6	1 897
Other net income	319	5	30	34	81	- 54	416
TOTAL INCOME	5 663	510	136	1 017	313	- 62	7 576
Operating expenses*	- 3 279	- 99	- 81	- 645	- 99	62	- 4 140
Staff expenses	- 1 656	- 54	- 37	- 499	- 31	0	- 2 276
General administrative expenses	- 1 458	- 44	- 42	- 131	- 56	62	- 1 669
Depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
Provisions for risks and charges	26	0	1	0	0	0	27
Impairment	- 189	0	- 1	- 2	- 19	0	- 212
on loans and receivables	- 135	0	- 1	- 2	- 9	0	- 148
on available-for-sale assets	- 50	0	0	0	0	0	- 50
on goodwill	0	0	0	0	0	0	0
on other	- 4	0	0	0	- 10	0	- 14
Share in results of associated companies	57	0	0	2	0	0	59
PROFIT BEFORE TAX	2 253	411	54	371	195	0	3 283
Income tax expense	- 533	- 94	- 18	- 99	- 6	0	- 750
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 720	317	36	272	189	0	2 534
attributable to minority interest	28	153	0	2	90	0	273
attributable to equity holders of the parent	1 692	164	36	269	99	0	2 261
*of which non-cash expenses :	- 165	- 1	- 1	- 16	- 13	0	- 195
depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
other	26	0	1	0	0	0	27

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2006						
Cash and cash balances with central banks	2 386	0	0	0	0	2 386
Financial assets	218 837	581	3 528	36 502	6 318	265 766
Held for trading	34 853	8	0	32 111	53	67 024
Designated at fair value through profit and loss	42 376	0	0	0	3 882	46 258
Available for sale	28 543	455	2	26	69	29 095
Loans and receivables	103 436	117	3 526	4 366	2 306	113 751
Held-to-maturity investments	9 308	0	0	0	4	9 313
Hedging derivatives	321	0	0	0	4	325
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	- 175	0	0	0	0	- 175
Accrued interest income	2 183	0	9	62	45	2 299
Tax assets	485	1	12	131	10	638
Current tax assets	65	0	7	42	4	117
Deferred tax assets	420	1	5	89	6	521
Non-current assets held for sale and disposal groups	53	0	0	0	0	53
Investments in associated companies	528	0	0	3	4	535
Investment property	0	0	0	0	225	225
Property and equipment	1 477	4	4	55	4	1 544
Goodwill and other intangible fixed assets	784	1	5	26	17	833
Other assets	756	111	183	395	190	1 634
TOTAL ASSETS	227 314	697	3 741	37 174	6 813	275 738
Financial liabilities	205 408	2	22	27 540	23 636	256 608
Held for trading	17 454	0	0	19 328	98	36 880
Designated at fair value through profit and loss	38 401	0	0	0	9 166	47 567
Measured at amortized cost	149 504	2	22	8 212	14 372	172 112
Hedging derivatives	49	0	0	0	0	49
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Accrued interest expenses	1 282	0	16	81	194	1 572
Tax liabilities	342	31	23	50	5	450
Current tax liabilities	301	31	7	37	4	380
Deferred tax liabilies	40	0	16	13	1	70
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0
Provisions for risks and charges	398	0	3	4	1	407
Other liabilities	3 079	106	108	1 070	170	4 534
TOTAL LIABILITIES	210 508	140	171	28 746	24 005	263 570
Acquisitions of tangible and intangible assets (including goodwill)	805	2	4	34	7	851
BALANCE SHEET 31-12-2007						
Cash and cash balances with central banks	2 873	0	0	25	0	2 898
Financial assets	241 147	680	4 238	42 951	7 686	296 702
Held for trading	38 327	0	0	34 406	317	73 051
Designated at fair value through profit and loss	35 073	3	0	329	579	35 985
Available for sale	24 020	547	1	1 844	131	26 543
Loans and receivables	133 912	130	4 237	6 372	6 652	151 304
Held-to-maturity investments	9 291	0	0	0	5	9 296
Hedging derivatives	522	0	0	0	1	524
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	- 223	0	0	0	0	- 223
Accrued interest income	2 843	0	6	48	21	2 918
Tax assets	493	1	13	126	25	659
Current tax assets	50	0	11	33	8	102
Deferred tax assets	443	1	2	94	17	556
Non-current assets held for sale and disposal groups	1	0	0	40	0	41
Investments in associated companies	603	0	0	40	3	646
Investment property	94	0	0	0	354	448
Property and equipment	1 681	4	4	64	7	1 760
Goodwill and other intangible fixed assets	1 733	1	59	197	18	2 008
Other assets	758	41	221	573	25	1 618
TOTAL ASSETS	252 004	727	4 542	44 065	8 139	309 476
Financial liabilities	231 678	11	9	30 452	25 020	287 170
Held for trading	19 988	0	0	21 302	251	41 542
Designated at fair value through profit and loss	32 040	0	0	1 825	3 218	37 082
Measured at amortized cost	179 531	11	9	7 325	21 551	208 427
Hedging derivatives	118	0	0	0	0	118
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Accrued interest expenses	1 659	0	16	86	245	2 006
Tax liabilities	377	16	18	45	12	467
Current tax liabilities	323	16	5	34	11	388
Deferred tax liabilies	54	0	13	11	1	79
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0
Provisions for risks and charges	390	0	3	6	1	401
Other liabilities	4 272	45	125	982	95	5 519
TOTAL LIABILITIES	238 375	72	171	31 571	25 373	295 562
Acquisitions of tangible and intangible assets (including goodwill)	1 217	0	60	158	32	1 467

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	KBC Bank
2006				
Gross income	3.515	1.939	1.705	7.158
Total assets (period-end)	168.308	36.046	71.385	275.738
Total liabilities (period-end)	154.517	35.732	73.321	263.570
Acquisitions of fixed assets (period-end)	211	604	36	851
2007				
Gross income	3 788	2 168	1 619	7 576
Total assets (period-end)	169 734	48 952	90 790	309 476
Total liabilities (period-end)	165 311	44 650	85 601	295 562
Acquisitions of fixed assets (period-end)	233	1 179	55	1 467

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2006	2007
Total	3 271	3 179
Interest income	10 968	13 882
Available-for-sale assets	1 038	1 306
Loans and receivables	7 157	7 737
Held-to-maturity investments	351	384
Other assets not at fair value	68	134
Subtotal, interest income from financial assets not measured at fair value through profit or loss	8 614	9 560
of which : on impaired financial assets	34	10
Financial assets held for trading	1 239	1 605
Hedging derivatives	617	685
Other financial assets at fair value through profit or loss	498	2 031
Interest expense	- 7 697	- 10 703
Financial liabilities measured at amortised cost	- 5 310	- 7 704
Other	- 1	- 12
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	- 5 312	- 7 715
Financial liabilities held for trading	- 303	- 484
Hedging derivatives	- 660	- 630
Other financial liabilities at fair value through profit or loss	- 1 422	- 1 873

Note 4: Dividend income

In millions of EUR	2006	2007
Total	139	126
Breakdown by type	139	126
Held-for-trading shares	87	81
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	52	45

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

In millions of EUR	2006	2007
Total	1 468	1 768
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	1 252	1 549
Other financial instruments initially recognised at fair value through profit or loss	- 252	59
Foreign exchange trading	468	154
Fair value adjustments in hedge accounting	0	6
Microhedge	0	2
Fair value hedges	0	2
Changes in the fair value of the hedged item	- 12	- 15
Changes in the fair value of the hedging derivatives (including discontinuation)	12	17
Cashflow hedges	- 1	0
Changes in the fair value of the hedging derivatives - ineffective portion	- 1	0
Hedges of net investments in foreign operation - ineffective portion	0	0
Portfolio hedge of interest rate risk	0	4
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	- 234	- 48
Changes in the fair value of the hedging derivatives (including discontinuation)	234	48
Cashflow hedges of interest rate risk	0	4
Changes in the fair value of the hedging instrument - ineffective portion	0	4

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under ‘Portfolio hedge of interest rate risk’, the interest concerned is recognised under ‘Net interest income’. Changes in the fair value of these derivatives are recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss’, but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedge is effective – the balance of ‘Net (un)realised gains from financial instruments at fair value through profit or loss’ is zero.
  - For other ALM derivatives, the interest in question is recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss' (a negative 146 and a positive 35 million euros in 2006 and 2007, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments designated at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro-hedging, the dollar offset method is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro-hedges, the designated hedging instrument is compared with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to a positive 10 million euros for 2006 and to 154 million euros for 2007. These are included in the 468 and 154 million euros shown in the table.
- The total change in fair value taken to the income statement in 2007, where the fair value was estimated using techniques based on unobservable parameters, was almost entirely accounted for by CDOs in the group's portfolios. The changes in the fair value of these instruments came to 103 million euros in 2007 (insignificant in 2006). Reasonable changes in the assumptions would lead to an additional negative fair value impact of 110 million euros before taxes.
- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Day 1 profit is recognised for structuring CDOs. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):

o Deferred day 1 profits, opening balance on 1 January 2006	40
o New deferred day 1 profits	55
o Day 1 profits recognised in profit or loss during the period	
▪ Amortisation of day 1 profits	-1
▪ Financial instruments no longer recognised	-24
▪ Exchange differences	2
o Deferred day 1 profits, closing balance on 31 December 2006/opening balance on 1 January 2007:	72
o New deferred day 1 profits	134
o Day 1 profits recognised in profit or loss during the period	
▪ Amortisation of day 1 profits	-32
▪ Financial instruments no longer recognised	-63
▪ Exchange differences	-7
o Deferred day 1 profits, closing balance on 31 December 2007	104

● Note 6: Net realised gains from available-for-sale assets

In millions of EUR	2006	2007
Total	181	189
Breakdown by portfolio		
Fixed-income assets	34	- 145
Shares	147	335

● Note 7: Net fee and commission income

In millions of EUR	2006	2007
Total	1 648	1 897
Breakdown by type		
Fee and commission income	2 398	2 666
Securities and asset management	1 464	1 646
Commitment credit	149	181
Payments	412	419
Other	374	420
Fee and commission expense	- 750	- 769
Commission paid to intermediaries	- 74	- 81
Other	- 676	- 688

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).

Note 8: Other net income

In millions of EUR	2006	2007
Total	451	416
Net realised gain on loans and receivables	58	18
of which: impact of sale of bad loans - Kredyt Bank 2006	37	0
Net realised gain on held-to-maturity investments	1	1
Net realised gain on financial liabilities measured at amortised cost	0	0
Other	392	397
of which: realised gain on sale of buildings in Prague - ČSOB	36	2
of which: realised gain on sale of BCC and Banksys shareholdings - KBC Bank 2006	60	0
of which: Belgian Deposit Guarantee Agency - KBC Bank	0	44
of which: impact of sale GBC - K&H Bank	0	35

- The amount reported under 'Other net income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains or losses on property and equipment and investment property, and amounts recovered on loans that have been written off in full and realised gains or losses on the sale of held-to-maturity investments, loans and receivables and financial liabilities measured at amortised cost.

Note 9: Operating expenses

In millions of EUR	2006	2007
Total	- 3 872	- 4 140
Breakdown by type		
Staff expenses	- 2 190	- 2 276
of which share based payment: equity settled	- 2	- 1
of which share based payment: cash settled	- 61	- 25
General administrative expenses	- 1 510	- 1 669
Depreciation and amortisation of fixed assets	- 206	- 222
Provisions for risks and charges	34	27

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes and utilities.
- Share-based payments are included under staff expenses, and can be broken down as follows:

  A. Main cash-settled share-based payment arrangements

  KBC Financial Products established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009. At the end of 2007, KBC Financial Products recognised an outstanding liability of 88 million euros in this regard (129 million euros at year-end 2006).

  B. Main equity-settled share-based payments

  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to members of staff of the company and various subsidiaries. There were share option plans for all members of staff and plans reserved for particular members of staff. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on Euronext Brussels.

  The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.

  KBC has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.
- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.
- In 2007, KBC Bank employees again had the opportunity to subscribe to the group's capital increase on attractive terms. This employee benefit of 1.3 million euros was recognised as a staff expense against an entry under equity (in 2006, this employee benefit came to 1.7 million euros).

- An overview of the number of stock options for staff and the weighted averages of the exercise prices is shown in the table. The average price of the KBC share came to 95.8 euros during 2007. In 2007, 7 300 new KBC share options for personnel were issued. The fair value of this employee benefit was determined using an option valuation model that takes into account the specific features of the options allocated, including the exercise price (97.94 euros), life (7 years) and limited transferability.

	2006		2007	
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	3 290 072	41,81	2.223.824	43,31
Granted during period	57 143	89,21	7.300	97,94
Exercised during period	-1 118 727	41,46	-1.137.286	40,80
Expired during period	- 4 662	41,61	-75.650	34,50
Forfeited during period	0	0,00	0	0,00
Outstanding at end of period[2]	2 223 824	43,31	1.018.188	47,12
Exercisable at end of period	1 713 563	42,50	813.358	42,24

1 In share equivalents.
[2] 2006: range of exercise prices: 28.3-89.21 euros; weighted average residual term to maturity: 56 months;
2007: range of exercise prices: 28.3-97.94 euros; weighted average residual term to maturity: 46 months.

Note 10: Personnel

	2006	2007
Total average number of persons employed (in full-time equivalents)	36.462	41.059
Breakdown by type	36.462	41.059
Blue-collar staff	53	525
White-collar staff	35.514	39.967
Management	895	567

Note 11: Impairment (income statement)

In millions of EUR	2006	2007
Total	- 169	- 212
Impairment on loans and receivables	- 176	- 148
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 177	- 168
Specific impairments for off-balance-sheet credit commitments	- 8	- 18
Portfolio-based impairments	9	39
Impairment on available-for-sale assets	- 2	- 50
Breakdown by type		
Shares	- 2	- 42
Other	0	- 8
Impairment on goodwill	0	0
Impairment on other	9	- 14
Intangible assets, other than goodwill	- 1	- 2
Property and equipment	11	- 9
Held-to-maturity assets	0	1
Associated companies (goodwill)	0	0
Other	0	- 4

- Impairment on loans and receivables relate primarily to loans and advances to customers (chiefly term loans).
- Impairment on other. In 2007, this heading included primarily a 2-million-euro allocation for impairment on various intangible assets and a 9–million-euro allocation for impairment on real estate. In 2006, this heading had included mainly a 7-million-euro reversal of impairment on property in Poland.

Note 12: Share in results of associated companies

In millions of EUR	2006	2007
Total	43	59
of which NLB	33	48

- Impairment on (goodwill on) associated companies is included in ‘Impairment’. The share in results of associated companies does not therefore take this impairment into account.

Note 13: Income tax expense

In millions of EUR	2006	2007
Total	- 759	- 750
Breakdown by type	- 759	- 750
Current taxes on income	- 723	- 672
Deferred taxes on income	- 35	- 78
Tax components		
Profit before tax	3 160	3 283
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 1 074	- 1 116
Plus/minus tax effects attributable to	316	366
Differences in tax rates, Belgium - abroad	127	160
Tax-free income	204	361
Adjustments related to prior years	1	0
Adjustments, opening balance of deffered taxes due to change in tax rate	0	- 3
Unused tax losses and unused tax credits to reduce current tax expense	1	4
Unused tax losses and unused tax credits to reduce deferred tax expense	0	0
Other (mainly non-deductible expenses)	- 17	- 157
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized	442	462

[1] Primarily gains realised on the sale of shares.

[2] Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

- For information on tax assets and tax liabilities, see Note 23.

Notes to the balance sheet

Note 14: Financial assets and liabilities, breakdown by portfolio and product

FINANCIAL ASSETS (In millions of EUR)	Held for trading	Designated at fair value through profit or loss[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Loans and advances to credit institutions and investment firms[a / c]	11 463	19 619	0	9 948	-	-	-	41 030
Loans and advances to customers[b]	3 442	11 943	0	103 803	-	-	-	119 188
Discount and acceptance credit	0	0	0	224	-	-	-	224
Consumer credit	0	0	0	3 226	-	-	-	3 226
Mortgage loans	0	11 089	0	28 500	-	-	-	39 589
Term loans	3 442	854	0	50 913	-	-	-	55 208
Finance leasing	0	0	0	6 031	-	-	-	6 031
Current account advances	0	0	0	6 885	-	-	-	6 885
Securitised loans	0	0	0	302	-	-	-	302
Other	0	0	0	7 722	-	-	-	7 722
Equity instruments	16 265	0	1 417	-	-	-	-	17 682
Debt instruments issued by	19 004	14 697	27 678	-	9 313	-	-	70 684
Public bodies	12 327	9 073	19 254	-	8 505	-	-	49 152
Credit institutions and investment firms	4 170	847	2 569	-	441	-	-	8 026
Corporates	2 507	4 778	5 855	-	366	-	-	13 506
Derivatives	16 851	-	-	-	-	325	-	17 176
Total carrying value excluding accrued interest income	67 024	46 258	29 095	113 751	9 313	325	0	265 766
Accrued interest income[2]	141	249	420	816	221	408	-	2 256
Total carrying value including accrued interest income	67 165	46 507	29 515	114 567	9 534	733	-	268 022
Total fair value	67 165	46 507	29 515	115 725	9 515	733		269 161
[a] Of which reverse repos								23 107
[b] Of which reverse repos								7 006
[c] Of which loans and advances to banks repayable on demand and term loans at not more than three months								23 439
[1] Designated at fair value through profit or loss.								
[2] Excluding accrued interest income related to cash balances with central banks for an amount of 43 million EUR; including accrued interest income the cash and cash balances with central banks amount to 2 429 million EUR								
31-12-2007								
Loans and advances to credit institutions and investment firms[a / c]	16 098	16 014	0	15 417	-	-	-	47 529
Loans and advances to customers[b]	2 067	8 756	0	135 887	-	-	-	146 710
Discount and acceptance credit	0	0	0	717	-	-	-	717
Consumer credit	0	0	0	3 885	-	-	-	3 885
Mortgage loans	0	3 254	0	43 513	-	-	-	46 767
Term loans	2 067	5 322	0	65 796	-	-	-	73 185
Finance leasing	0	0	0	6 883	-	-	-	6 883
Current account advances	0	0	0	7 162	-	-	-	7 162
Securitised loans	0	0	0	264	-	-	-	264
Other	0	181	0	7 667	-	-	-	7 848
Equity instruments	16 992	15	939	-	-	-	-	17 947
Debt instruments issued by	16 391	11 199	25 604	-	9 296	-	-	62 491
Public bodies	5 218	8 581	13 889	-	8 737	-	-	36 425
Credit institutions and investment firms	4 059	741	3 575	-	279	-	-	8 654
Corporates	7 114	1 878	8 140	-	280	-	-	17 412
Derivatives	21 503	-	-	-	-	524	-	22 026
Total carrying value excluding accrued interest income	73 051	35 985	26 543	151 304	9 296	524	0	296 702

Accrued interest income [2]	344	299	390	1 475	229	175	0	2 910
Total carrying value including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	0	299 613
Total fair value	73 394	36 284	26 933	151 955	9 404	698		298 668

[a] Of which reverse repos 29 919

[b] Of which reverse repos 7 298

[c] Of which loans and advances to banks repayable on demand and term loans at not more than three months 24 729

[1] Designated at fair value through profit or loss.

[2] Excluding accrued interest income related to cash balances with central banks for an amount of 8 million EUR; including accrued interest income the cash and cash balances with central banks amount to 2 906 million EUR

FINANCIAL LIABILITIES (In millions of EUR)	Held for trading	Designated at fair value through profit or loss [1]	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Deposits from credit institutions and investment firms[c / e]	5 426	15 942	-	-	-	-	32 321	53 689
Deposits from customers and debt certificates[d]	1 399	31 625	-	-	-	-	136 615	169 638
Deposits from customers	270	16 242	-	-	-	-	101 167	117 679
Demand deposits	0	0	-	-	-	-	31 827	31 827
Time deposits	270	16 242	-	-	-	-	35 778	52 289
Savings deposits	0	0	-	-	-	-	29 628	29 628
Special deposits	0	0	-	-	-	-	2 736	2 736
Other deposits	0	0	-	-	-	-	1 199	1 199
Debt certificates	1 129	15 383	-	-	-	-	35 447	51 960
Certificates of deposit	0	9 239	-	-	-	-	15 652	24 891
Customer savings certificates	0	0	-	-	-	-	2 704	2 704
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	1 129	5 199	-	-	-	-	12 540	18 869
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	945	-	-	-	-	4 551	5 496
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	23 558	-	-	-	-	49	-	23 608
Short positions	5 718	-	-	-	-	-	-	5 718
in equity instruments	1 417	-	-	-	-	-	-	1 417
in debt instruments	4 301	-	-	-	-	-	-	4 301
Other	779	0	-	-	-	-	3 176	3 954
Total carrying value excluding accrued interest expense	36 880	47 567	-	-	-	49	172 112	256 608
Accrued interest expense	208	184	-	-	-	436	744	1 572
Total carrying value including accrued interest expense	37 087	47 751	-	-	-	485	172 856	258 180
Total fair value	37 087	47 751	0	0	0	485	172 680	258 003

[c] Of which repos 18 333

[d] Of which repos 9 071

[e] Of which deposits from banks repayable on demand 8 081

31-12-2007								
Deposits from credit institutions and investment firms[c / e]	8 210	15 156	-	-	-	-	46 373	69 738
Deposits from customers and debt certificates [d]	2 452	21 927	-	-	-	-	158 188	182 567
Deposits from customers	0	14 139	-	-	-	-	114 698	128 837
Demand deposits	0	1 415	-	-	-	-	36 343	37 758
Time deposits	0	12 723	-	-	-	-	46 913	59 636
Savings deposits	0	0	-	-	-	-	27 079	27 079
Special deposits	0	0	-	-	-	-	3 444	3 444
Other deposits	0	0	-	-	-	-	919	919
Debt certificates	2 452	7 788	-	-	-	-	43 490	53 730
Certificates of deposit	0	2 245	-	-	-	-	15 697	17 942
Customer savings certificates	0	0	-	-	-	-	2 950	2 950
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	2 452	4 497	-	-	-	-	19 037	25 986
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	1 046	-	-	-	-	5 806	6 852
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	25 828	-	-	-	-	118	-	25 946
Short positions	4 809	-	-	-	-	-	-	4 809
in equity instruments	3 723	-	-	-	-	-	-	3 723
in debt instruments	1 085	-	-	-	-	-	-	1 085

Other	243	0	-	-	-	-	3 867	4 110
Total carrying value excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense	311	420	-	-	-	320	954	2 006
Total carrying value including accrued interest expense	41 853	37 503	-	-	-	438	209 382	289 175
Total fair value	41 853	37 503	-	-	-	438	208 948	288 741

[c] Of which repos	21 006
[d] Of which repos	8 489
[e] Of which deposits from banks repayable on demand	13 168

- Financial assets and liabilities are grouped into categories (*portfolios*). These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- As stated in Note 1a, the balance sheet presentation now reflects a portfolio instead of a product-based approach. However, in Note 14, the financial assets and liabilities are presented in a table with both a portfolio and a product breakdown. The reference figures for 31 December 2006 have been restated to allow comparison with the information presented in the new breakdown. The following changes were made:
  - A number of non-interest-bearing assets and liabilities (classified in the 2006 annual report as 'loans and advances to customers') are now recognised under 'other assets' and 'other liabilities'.
  - Short positions (classified in the 2006 annual report as 'other liabilities') have been reclassified as 'financial liabilities held for trading').
  - Derivatives (classified in the 2006 annual report entirely under 'held for trading') have now been broken down into the 'held for trading' and 'hedging derivatives' categories.
  - The breakdown by counterparty type - such as credit institutions, customers, etc. - (based on the regulatory definition in the 2006 annual report) is now based on Basel II definitions. The main change relates to reclassification of investment firms as credit institutions.
  - Warrants (classified in the 2006 annual report as 'equity instruments') have been reclassified as 'derivatives').
  - In order to bring the classification into line with the measurement method used, a portion of the mortgage loans with variable yield (11 089 million euros on 31 December 2006) - classified in the 2006 annual report as 'loans and receivables' - have, together with part of the funding, now come under 'designated at fair value through profit or loss'.
  - A portion of the 'term loans' (i.e. for certain Central and Eastern European group companies) have been reclassified as 'consumer credit'.
  - Impairment (in Note 20 of the 2006 annual report under 'other') is now broken down per relevant product type.
  - Part of the 'other deposits' heading has been reclassified as 'time deposits'.
- Financial assets and liabilities at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued as follows:
  - When readily and regularly available, published price quotations in active markets (from dealers, brokers, regulatory agencies, etc.) accessible to KBC are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices; no model is involved. Financial instruments are initially valued at mid- or closing prices. Market value adjustments are applied to cover close-out costs, which means that financial assets are measured at bid prices and financial liabilities at ask prices. Financial instruments valued using the above methodology include spot foreign exchange contracts, futures, listed equity and share options and government bonds.
  - If there is no active market, fair value will be obtained using a valuation technique (e.g., discounted cash flow analysis and option pricing techniques) based on the prices from observable current market transactions in the same instruments, or based on available observable market data obtained from independent sources and based on models commonly used by market participants. Financial instruments valued using the above methodology include forward foreign exchange contracts, currency swaps, forward rate agreements and interest rate swaps.
  - When valuation parameters are not observable, fair value is based on the best information available in the circumstances, which may include KBC's own data. Such parameters reflect KBC's own assumptions about what information is relevant for the pricing of a financial asset or liability. Financial instruments for which the parameters are not observable include illiquid bonds, illiquid credit default swaps and illiquid structured notes.

- Fair value adjustments (market value adjustments) are recognised on all positions that are measured at fair value with fair value changes being reported in net profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-linked valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
  - Only home loans are securitised. Related financial liabilities came to 0.3 billion euros at year-end 2007 (excluding Home Loan Invest, as the risk is borne for the most part by KBC), the same as the previous year.
- In addition, the following applies to financial liabilities:
  - The impact of KBC's own credit exposure on the fair value of financial liabilities is negligible.
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - The difference between the carrying value and the repayment price of financial liabilities designated at fair value through profit or loss is minor.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds is for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 15: Financial assets and liabilities, breakdown by portfolio and geographic location

ASSETS (In millions of EUR)	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Belgium	4 048	5 446	13 040	61 638	2 966	254	-	109 625
Central and Eastern Europe and Russia	5 918	1 385	3 866	23 627	5 075	66	-	42 042
Rest of the world	57 058	39 426	12 189	28 486	1 271	6	-	158 761
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	-	265 766
31-12-2007								
Belgium	3 046	7 021	7 299	70 167	2 893	435	-	90 860
Central and Eastern Europe and Russia	8 977	839	4 635	33 256	5 348	67	-	53 122
Rest of the world	61 028	28 125	14 609	47 881	1 055	22	-	152 720
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	-	296 702

* Designated at fair value through profit or loss.

LIABILITIES (In millions of EUR)	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Belgium	3 342	8 426	-	-	-	35	73 877	85 680
Central and Eastern Europe and Russia	945	4 488	-	-	-	13	30 696	36 143
Rest of the world	32 593	34 653	-	-	-	1	67 538	134 785
Total carrying value	36 880	47 567	-	-	-	49	172 112	256 608
31-12-2007								
Belgium	3 025	3 980	-	-	-	77	77 267	84 349
Central and Eastern Europe and Russia	667	3 031	-	-	-	38	39 499	43 235
Rest of the world	37 849	30 072	-	-	-	3	91 662	159 586
Total carrying value	41 542	37 082	-	-	-	118	208 427	287 170

* Designated at fair value through profit or loss.

Note 16: Financial assets, breakdown by portfolio and quality

In millions of EUR	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	TOTAL
31-12-2006							
Unimpaired assets	67 024	46 258	29 075	112 747	9 311	325	264 741
Impaired assets	-	-	81	3 079	3	-	3 163
Impairment	-	-	- 62	- 2 075	- 1	-	- 2 138
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	265 766
31-12-2007							
Unimpaired assets	73 051	35 985	26 397	149 898	9 296	524	295 150
Impaired assets	-	-	284	3 427	0	-	3 711
Impairment	-	-	- 138	- 2 020	0	-	- 2 158
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	296 702

* Designated at fair value through profit or loss.

Past due, but not impaired assets* (In millions of EUR)	less then 30 days past due	30 days or more, but less then 90 days past due
31-12-2006		
Loans & advances	3 011	543
Debt instruments	0	0
Derivatives	0	0
Total	3 011	543
31-12-2007		
Loans & advances	3 642	573
Debt instruments	0	0
Derivatives	18	0
Total	3 659	573

* Financial assets that are 90 days or more past due are always considered 'impaired.

- Definitions:
  - Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
  - Fixed-income financial assets are impaired when impairment is identified on an individual basis. The concept of 'impairment' is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of impaired.

- Information on 'maximum credit exposure' is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

Maximum credit exposure (In millions of EUR)	31-12-2006	31-12-2007
Equity	17 682	17 947
Debt instruments	70 684	62 491
Loans & advances	160 217	194 239
Of which designated at fair value through profit or loss	31 561	24 770
Derivatives	17 176	22 026
Other	41 602	48 443
Total	307 362	345 145
Carrying value of financial assets pledged as collateral for		
Liabilities	27 829	40 383
Contingent liabilities	2 815	1 534

- Information on collateral held is provided in the table. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the trustee in bankruptcy. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table).
- Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owners) in its original form, or, where necessary, in cash

Collateral held (which may be sold or repledged in the absence of default by the owner)

	Fair value of collateral held		Fair value of collateral sold/repledged	
	31-12-2006	31-12-2007	31-12-2006	31-12-2007
Financial assets	31 077	41 830	8 108	15 472
Equity instruments	174	245	0	0
Debt instruments	30 747	41 207	8 108	15 472
Loans & advances	14	197	0	0
Cash	142	182	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral obtained by taking possession is not material.

Note 17: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

ASSETS (In millions of EUR)	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Not more than one year	21 400	17 313	4 837	50 388	1 005	-	-	94 944
More than one but not more than five year	3 104	10 437	12 050	17 283	5 103	-	-	47 977
More than five years	9 403	18 508	10 784	44 990	3 205	-	-	86 889
Without maturity	33 117	0	1 424	1 090	0	325	-	35 956
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	-	265 766
31-12-2007								
Not more than one year	23 731	23 671	2 997	58 577	2 023	-	-	110 999
More than one but not more than five year	3 353	5 875	11 952	24 320	3 891	-	-	49 391
More than five years	7 472	6 423	10 655	67 341	3 382	-	-	95 273
Without maturity	38 495	15	939	1 066	0	524	-	41 039
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	-	296 702

* Designated at fair value through profit or loss.

LIABILITIES (In millions of EUR)	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Not more than one year	10 784	40 744	-	-	-	-	120 093	171 620
More than one but not more than five year	1 657	3 143	-	-	-	-	15 890	20 690
More than five years	842	3 546	-	-	-	-	6 004	10 392
Without maturity	23 598	134	-	-	-	49	30 125	53 906
Total carrying value	36 880	47 567	-	-	-	49	172 112	256 608
31-12-2007								
Not more than one year	10 520	31 286	-	-	-	-	149 854	191 660
More than one but not more than five year	3 038	1 472	-	-	-	-	21 105	25 615
More than five years	1 968	4 308	-	-	-	-	9 574	15 850
Without maturity	26 016	16	-	-	-	118	27 894	54 044
Total carrying value	41 542	37 082	-	-	-	118	208 427	287 170

* Designated at fair value through profit or loss.

Note 18: Impairment on financial assets that are available for sale

In millions of EUR	2006 Fixed-income securities	2006 Shares	2007 Fixed-income securities	2007 Shares
Opening balance	6	90	7	55
Movements with an impact on results				
Impairment recognised	0	3	8	43
Impairment reversed	0	0	0	0
Movements without an impact on results				
Write-offs	0	0	0	0
Change in the scope of consolidation	0	0	0	6
Other	0	- 38	- 1	21
Closing balance	7	55	13	124

Note 19: Impairment on financial assets held to maturity

In millions of EUR	2006 Fixed-income securities	2007 Fixed-income securities
Opening balance	0	1
Movements with an impact on results		
Impairment recognised	0	0
Impairment reversed	0	- 1
Movements without an impact on results		
Write-offs	0	0
Changes in the scope of consolidation	0	0
Other	1	0
Closing balance	1	0

Note 20: Impairment on loans and receivables (balance sheet)

In millions of EUR	31-12-2006	31-12-2007
Total	2 155	2 128
Breakdown by type		
Specific impairment, on-balance-sheet lending	1 866	1 859
Specific impairment, off-balance-sheet credit commitments	67	84
Portfolio-based impairment	222	185
Breakdown by counterparty		
Impairment for loans and advances to banks	0	6
Impairment for loans and advances to customers	2 075	2 015
Specific and portfolio based impairment, off-balance-sheet credit commitments	80	108

MOVEMENTS	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairments	Total
Opening balance 1-1-2006	2 361	60	245	2 665
Movements with an impact on result				
Loan loss expenses	721	49	117	886
Loan loss recoveries	- 544	- 41	- 126	- 710
Movements without an impact on result				
Write-offs	- 523	0	- 1	- 524
Changes in the scope of consolidation	3	0	- 4	- 1
Other	152	- 1	- 8	- 161
Closing balance 31-12-2006	1 866	67	222	2 155
Opening balance 1-1-2007	1 866	67	222	2 155
Movements with an impact on result				
Loan loss expenses	643	62	173	878
Loan loss recoveries	- 475	- 44	- 211	- 730
Movements without an impact on result				
Write-offs	- 235	- 1	0	- 235
Changes in the scope of consolidation	59	0	0	59
Other	1	0	2	2
Closing balance 31-12-2007	1 859	84	185	2 128

Note 21: Derivative financial instruments

	Held for trading				Fair value hedge				Cash flow hedge*				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
In millions of EUR	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2006																
Total	16 851	23 558	891 337	912 127	4	11	222	217	133	26	5 426	5 363	188	13	12 733	12 785
Breakdown by type																
Interest rate contracts	5 388	8 623	553 040	560 990	4	2	82	75	65	23	4 083	4 132	188	13	12 733	12 785
Interest rate swaps	4 790	8 052	480 359	476 610	4	2	82	75	65	23	4 083	4 132	188	13	12 733	12 785
Forward rate agreements	20	21	21 817	20 030	0	0	0	0	0	0	0	0	0	0	0	0
Futures	31	0	11 361	20 144	0	0	0	0	0	0	0	0	0	0	0	0
Options	482	340	38 688	42 099	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	65	210	815	2 106	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 252	1 240	179 537	180 171	0	8	140	142	68	3	1 343	1 231	0	0	0	0
Forward foreign exchange operations/Currency forwards	505	431	100 786	101 442	0	0	0	0	1	0	14	14	0	0	0	0
Currency and interest rate swaps	564	578	54 727	54 678	0	8	140	142	62	3	1 166	1 075	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	182	231	24 023	24 051	0	0	0	0	6	1	163	143	0	0	0	0
Equity contracts	9 008	13 298	60 074	70 818	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	2 363	676	53 922	53 922	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	2	4	81	116	0	0	0	0	0	0	0	0	0	0	0	0
Futures	64	25	1 378	1 118	0	0	0	0	0	0	0	0	0	0	0	0
Options	5 468	12 019	37 417	47 856	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	1 111	575	693	1 224	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 147	359	65 173	66 645	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 147	359	65 173	66 645	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	57	38	95	85	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of a net investment in a foreign operation

In millions of EUR	Held for trading				Fair value hedge				Cash flow hedge*				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2007																
Total	21 503	25 828	1 051 666	1 039 677	32	20	1 933	1 927	269	89	11 912	11 749	223	9	11 862	11 862
Breakdown by type																
Interest rate contracts	5 403	7 467	648 680	643 737	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Interest rate swaps	4 815	6 943	554 908	554 314	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Forward rate agreements	49	43	33 957	29 042	0	0	0	0	0	0	0	0	0	0	0	0
Futures	25	2	9 722	9 626	0	0	0	0	0	0	0	0	0	0	0	0
Options	514	471	47 538	50 371	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	9	2 555	384	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 360	1 356	209 568	211 222	0	5	129	122	73	8	1 461	1 299	0	0	0	0
Forward foreign exchange operations/Currency forwards	443	445	116 667	118 195	0	0	7	0	0	0	20	20	0	0	0	0
Currency and interest rate swaps	659	656	64 890	65 239	0	5	122	122	66	8	1 276	1 134	0	0	0	0
Futures	0	0	14	14	0	0	0	0	0	0	0	0	0	0	0	0
Options	259	255	27 998	27 774	0	0	0	0	6	1	166	145	0	0	0	0
Equity contracts	9 452	13 826	60 965	58 375	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 911	290	32 363	32 368	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	8	1	10	184	0	0	0	0	0	0	0	0	0	0	0	0
Futures	21	31	1 098	338	0	0	0	0	0	0	0	0	0	0	0	0
Options	7 277	12 909	26 628	25 028	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	234	594	867	457	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	228	15	166	195	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of a net investment in a foreign operation

- Compared with the presentation in the previous annual report, a number of items have been reclassified. The main reclassification relates to the separation of credit derivatives from interest rate contracts.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: KBC uses this technique to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the so-called 'fair value' option): KBC uses this option to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs with embedded derivatives.

    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges. This type of hedge accounting is used in certain asset-swap constructions, where KBC buys a bond because of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges. This technique is used to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- As regards choosing between one or other of the above hedge accounting techniques, generally one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, the decision was taken to make use of the possibilities specifically provided for under IAS 39, namely the 'fair value option and the portfolio hedge of interest rate risk' according to 'the carved-out version'.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- The breakdown of the estimated future cashflows from cashflow hedging derivatives by time bucket was as follows at year-end 2007 (in millions of EUR, positive numbers represent a cash-inflow, negative numbers represent a cash-outflow):
  - not more than three months: 65
  - more than three but not more than six months: -10
  - more than six but not more than twelve months: 12
  - more than one but not more than two years: -18
  - more than two but not more than five years: -23
  - more than five years: 110

Note 22: Other assets

In millions of EUR	31-12-2006	31-12-2007
Total	1 634	1 618
Breakdown by type	1 634	1 618
Called capital as yet unpaid	0	0
Income receivable (other than interest income from financial assets)	70	134
Other	1 564	1 484

Note 23: Tax assets and tax liabilities

In millions of EUR	31-12-2006	31-12-2007
CURRENT TAXES		
Current tax assets	117	102
Current tax liabilities	381	388
DEFERRED TAXES	451	477
Tax assets by type of temporary difference	1 068	1 341
Employee benefits	247	237
Losses carried forward	15	17
Tangible and intangible fixed assets	46	61
Provisions for risks and charges	35	42
Impairment for losses on loans and advances	208	218
Financial instruments at fair value through profit or loss and fair value hedges	202	275
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	244	397
Technical provisions	0	0
Other	72	94
Unused tax losses and unused tax credits	0	0
Deferred tax liabilities by type of temporary difference	617	864
Employee benefits	3	5
Losses carried forward	3	2
Tangible and intangible fixed assets	58	78
Provisions for risks and charges	1	19
Impairment for losses on loans and advances	82	105
Financial instruments at fair value through profit or loss and fair value hedges	95	174
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	292	373
Technical provisions	0	0
Other	81	107
Recognised in the balance sheet as follows:		
Deferred tax assets	521	556
Deferred tax liabilities	70	79

- The total net increase in deferred taxes came to 26 million euros, which can be broken down as follows:
  - a 273-million-euro increase in deferred tax assets
  - a 247-million-euro increase in deferred tax liabilities
- The 273-million-euro increase in deferred tax assets is accounted for mainly by:
  - the increase via the income statement: + 81 million euros, due primarily to:
    - losses carried forward: +10 million euros.
    - tangible and intangible fixed assets: +14 million euros.
    - impairment for losses on loans and advances: -7 million euros.
    - financial instruments at fair value through profit or loss and fair value hedges: +68 million euros.
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities. +123 million euros.
  - the remaining 69-million-euro increase is accounted for primarily by changes in the scope of consolidation, translation differences and other items.
- The 247-million-euro increase in deferred tax liabilities is made up primarily of the following:
  - the increase via the income statement: + 159 million euros, due primarily to:
    - tangible and intangible fixed assets: +23 million euros.
    - provisions for risks and charges: +18 million euros.
    - impairment for losses on loans and advances: +27 million euros.
    - financial instruments at fair value through profit or loss and fair value hedges: +80 million euros.
  - the increase in positive fair value changes in cashflow hedges: +37 million euros;

- the remaining 49-million-euro increase is accounted for mainly by changes in the scope of consolidation, translation differences and other items.

Note 24: Investments in associated companies

In millions of EUR	31-12-2006	31-12-2007
Total	535	646
Overview of investments including goodwill		
NLB	496	568
Other	39	78
Goodwilll on associated companies		
Gross amount	210	210
Accumulated impairment	0	0
Breakdown by type		
Unlisted	535	646
Listed	0	0
Fair value of investments in listed associated companies	0	0

MOVEMENTS	31-12-2006	31-12-2007
Opening balance (January, 1)	839	535
Acquisitions	0	69
Carrying value, transfers	- 13	0
Share in the result for the period	43	59
Dividends paid	- 15	- 20
Share of gains and losses not recognized in the income statement	1	1
Translation differences	- 3	1
Changes in goodwill	0	0
Transfer to non-current assets held for sale	0	0
Changes in scope	- 328	0
Other movements	10	0
Closing balance (December, 31)	535	646

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect, full or joint, control. In general, KBC has a 20% to 50% shareholding in such companies.
- For an overview of financial information on associated companies, see Note 35.
- Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).

Note 25: Property and equipment and investment property

In millions of EUR	31-12-2006	31-12-2007
Property and equipment	1 544	1 760
Investment property	225	448
Rental income	17	29
Direct operating expenses from investments generating rental income	2	3
Direct operating expenses from investments not generating rental income	0	14

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2006					
Opening balance	1 063	38	348	1 449	158
Acquisitions	56	15	333	404	0
Disposals	- 54	0	- 95	- 149	- 1
Depreciation	- 52	- 27	- 78	- 157	- 5
Impairment					
Recognised	- 5	0	0	- 5	0
reversed	15	0	0	15	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	13	1	7	21	0
Changes in the scope of consolidation	2	4	31	37	48
Other movements	- 21	6	- 57	- 72	26
Closing balance	1 017	37	490	1 544	225
Of which: accumulated depreciation and impairment	689	218	513	1 420	25
Of which expenditure on items in the course of construction	0	0	131	131	-
Of which finance lease as a lessee	0	0	22	22	-
Fair value 31-12-2006	-	-	-	-	258
2007					
Opening balance	1 017	37	490	1 544	225
Acquisitions	116	45	156	317	32
Disposals	- 29	- 2	- 86	- 118	0
Depreciation	- 60	- 30	- 75	- 166	- 10
Impairment					
Recognised	0	0	0	0	- 9
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	59
Translation differences	10	0	5	15	4
Changes in scope of consolidation	85	5	8	98	55
Other movements	144	6	- 82	69	91
Closing balance	1 283	62	415	1 760	448
Of which: accumulated depreciation and impairment	774	246	174	1 194	21
Of which expenditure on items in the course of construction	25	0	17	42	-
Of which finance lease as a lessee	4	0	0	4	-
Fair value 31-12-2007	-	-	-	-	449

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- The investment property is valued by an independent expert, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).

Note 26: Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2006					
Opening balance	259	0	97	3	360
Acquisitions	383	18	22	22	447
Disposals	0	0	- 1	- 8	- 9
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	0	- 41	- 2	- 43
Impairment					
Recognised	0	0	- 1	0	- 1
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	26	- 1	1	1	27
Changes in the scope of consolidation	0	0	0	0	0
Other movements	41	0	1	10	52
Closing balance	709	17	79	27	832
Of which: accumulated amortisation and impairment	0	12	295	21	328
2007					
Opening balance	709	17	79	27	832
Acquisitions	1 045	1	40	31	1 118
Disposals	0	0	- 3	0	- 4
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 3	- 38	- 5	- 46
Impairment					
Recognised	0	- 1	0	- 1	- 2
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 12	- 1	1	- 1	- 13
Changes in the scope of consolidation	0	0	1	53	53
Other movements	68	- 4	- 8	15	70
Closing balance	1 810	9	71	117	2 008
Of which: accumulated amortisation and impairment	0	6	262	23	291

- The ‘goodwill’ column includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.

- At year-end 2007, goodwill related primarily to Absolut Bank and its subsidiaries (516 million euros), CSOB and its subsidiaries (308 million euros), EIBank (281 million euros), K&H Bank (271 million euros), KBC Asset Management NV (115 million euros) and Kredyt Bank and its subsidiaries (94 million euros). At year-end 2006, goodwill had been accounted for primarily by K&H Bank (273 million euros), CSOB and its subsidiaries (178 million euros), KBC Asset Management NV (115 million euros), and Kredyt Bank and its subsidiaries (101 million euros).

Note 27: Provisions for liabilities and charges

In millions of EUR	Provision for restructu-ring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commit-ments	Total
2006						
Opening balance	14	221	92	326	70	396
Movements with an impact on result						
Amounts allocated	4	20	20	45	67	111
Amounts used	0	- 21	- 6	- 27	0	- 27
Unused amounts reversed	- 3	- 46	- 1	- 50	- 57	- 107
Other movements	- 2	42	- 6	34	- 1	33
Closing balance	12	215	99	327	80	407
2007						
Opening balance	12	215	99	327	80	407
Movements with an impact on result						
Amounts allocated	1	64	13	78	79	157
Amounts used	- 2	- 18	- 64	- 85	0	- 85
Unused amounts reversed	0	- 18	- 2	- 21	- 53	- 74
Other movements	- 3	10	- 14	- 6	2	- 5
Closing balance	7	253	32	293	108	401

- Restructuring provisions were set aside mainly in a number of Central and Eastern European subsidiaries of KBC Bank.
- The provisions for legal disputes are discussed below.
- 'Other provisions' include those set aside for miscellaneous risks and future expenditure.
- Specific impairment for off-balance-sheet credit commitments include impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. Claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of their risk assessment ('probable', 'possible', 'remote'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
  No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
  All other claims ('remote outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has also provided information on the current status of the most important cases in this category.

  The main cases are as follows: The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
  - Probable outflow:
    - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. A criminal investigation is currently being carried out. A number of claims have already been settled either amicably or following an arbitral decision. On balance, 51 million euros' worth of provisions have been set aside for the claims still outstanding.
    - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in nineteen cases. In addition, KB Consult has been placed under suspicion by an investigating magistrate. A provision of 40 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.

- Possible outflow:
  - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.
- Remote outflow:
  - On 11 January 2008, the Brussels court sitting in chambers rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings before the Indictment Division have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the Agreement on Sale of Enterprise concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

Note 28: Other liabilities

In millions of EUR	31-12-2006	31-12-2007
Total	4 534	5 519
Breakdown by type	4 534	5 519
Retirement benefit plans or other employee benefits	1 224	1 420
Accrued charges (other than from interest expenses on financial liabilities)	756	1 969
Other	2 554	2 130

- For more information on retirement benefit plans or other employee benefits, see Note 29.

Note 29: Retirement benefit obligations

In millions of EUR	31-12-2006	31-12-2007
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 506	1 484
Current service Cost	91	85
Interest cost	61	71
Plan amendments	7	8
Actuarial gain/(loss)	- 119	- 83
Benefits paid	- 67	- 88
Exchange differences	0	- 5
Curtailment	0	0
Changes in the scope of consolidation	0	0
Other	5	56
Defined benefit obligation at end of the period	1 484	1 528
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 156	1 261
Actual return on plan assets	101	0
Employer contributions	55	55
Plan participant contributions	15	16
Benefits paid	- 65	- 85
Exchange differences	0	- 4
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	- 1	9
Fair value of plan assets at the end of the period	1 261	1 252
of which financial instruments issued by the Bank	11	10
Reconciliation of the fair value of reimbursement rights		
Fair value of reimbursement rights at the beginning of the period	26	37
Actual return on reimbursement rights	2	2
Employer contributions	3	17
Plan participant contributions	0	0
Benefits paid	-2	- 3
Exchange differences	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	8	2
Fair value of reimbursement rights at the end of the period	37	55
of which financial instruments issued by the Bank	0	0
Funded Status		
Plan assets / reimbursement rights in excess of defined benefit obligations	- 186	- 222
Unrecognised net actuarial gains	- 263	- 243
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 2	- 10
Unfunded accrued/prepaid pension cost	- 451	- 475
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 430	- 451
Net periodic pension cost	- 78	- 100
Employer contributions	58	72
Exchange differences	0	3
Changes in the scope of consolidation	0	0
Other	- 1	1
Unfunded accrued/prepaid pension cost at the end of the period	- 451	- 475

Amounts recognised in the balance sheet		
Prepaid pension cost	6	9
Reimbursement right	- 22	- 7
Accrued pension liabilities	- 435	- 477
Unfunded accrued/prepaid pension cost	- 451	- 475

Amounts recognised in the income statement		
Current service cost	91	85
Interest cost	61	71
Expected return on plan assets	- 60	- 72
Expected return on reimbursement rights	- 1	- 2
Adjustments to limit prepaid pension cost	1	2
Amortisation of unrecognized prior service costs	7	64
Amortisation of unrecognized net (gains)/losses	- 2	- 32
Employee contributions	- 14	- 17
Other	- 5	1
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	78	100
Actual return on plan assets (in %)	9%	0%
Actual return on reimbursement rights (in %)	6%	5%

Principal actuarial assumptions used (based on weighted averages)		
Discount rate	4,0%	4,6%
Expected rate of return on plan assets	5,3%	5,3%
Expected rate of return on reimbursement rights	4,4%	4,6%
Expected rate of salary increase	3,4%	3,3%
Rate of pension increase	0,3%	0,4%

DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	2

* Included under 'staff expenses' (see 'Note 9 Operating expenses)

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. More specifically, retirement benefit obligations include a defined benefit plan in the form of a pension fund for KBC Bank (and a large number of subsidiaries). The assets are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- Past figures for the main items shown in the table (figures for year-end 2005, 2006 and 2007, in millions of EUR):
  - Defined benefit obligations: 1 506, 1 484, 1 528;
  - Fair value of plan assets: 1 182, 1 298, 1 307;
  - Unfunded accrued or prepaid pension cost: -430, -451, -475.
- The actual return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2007, the plan assets of KBC Bank's pension fund were as follows: 51% shares, 39% bonds, 8% real estate and 2% cash (in 2006: 53%, 36%, 10% and 1%, respectively);
- For the KBC pension fund, a contribution of 49 million euros is expected for 2008.

- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact): -23 million euros in 2006, 0 million euros in 2007. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros and -5 million euros, respectively.
- There is no contractual agreement or fixed base for taxing individual KBC entities that have signed up for the KBC pension fund for the net expense arising from the overall defined-benefit scheme.

Note 30: Parent shareholders' equity

In number of shares	31-12-2006	31-12-2007
Total number of shares issued and fully paid up	389 955 122	417 232 809
Breakdown by type		
Ordinary shares	385 054 107	412 331 794
Other equity instruments	4 901 015	4 901 015
of which ordinary shares that entitle the holder to a dividend payment	389 955 122	417 232 809
of which treasury shares	0	0
Other information		
Par value per share (in euros)	9,77	9,77
Number of shares issued but not fully paid up	0	0

MOVEMENTS, in number of shares	Ordinary shares	Other equity instruments	Total
2006			
Opening balance	385 054 107	12 787 451	397 841 558
Issue of shares	0	0	0
Conversion of convertible bonds into shares	0	0	0
Other movements	0	- 7 886 436	- 7 886 436
Closing balance	385 054 107	4 901 015	389 955 122
2007			
Opening balance	385 054 107	4 901 015	389 955 122
Issue of shares	27 277 687	0	27 277 687
Conversion of convertible bonds into shares	0	0	0
Other movements	0	0	0
Closing balance	412 331 794	4 901 015	417 232 809

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table). All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- At 31 December 2007, there were 412 331 794 ordinary shares in circulation. Of these, KBC Group NV and KBC Insurance NV respectively hold 412 331 793 shares and 1 share.
- At 31 December 2007, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 9.

Other notes

Note 31: Commitments and contingent liabilities

In millions of EUR	31-12-2006	31-12-2007
CREDIT COMMITMENTS - undrawn amount		
– given	39 313	41 403
1) irrevocable	29 893	34 634
2) revocable	9 420	6 769
– received	6	273
FINANCIAL GUARANTEES		
– given	11 639	13 734
– guarantees received / collateral	127 511	166 160
1) for impaired and past due assets	3 180	4 617
non-financial assets	3 039	4 304
financial assets	141	313
2) for assets that are not impaired or past due assets	124 331	161 543
non-financial assets	83 312	100 967
financial assets	41 019	60 577
OTHER COMMITMENTS		
– given	87	93
1) irrevocable	71	75
2) revocable	16	18
– received	0	0

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Bank irrevocably guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2007 listed in Section 5c of the Irish Companies Amendment Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies Amendment Act 1986.
  - KBC Asset Management International Limited
  - KBC Asset Management Limited
  - KBC Financial Services (Ireland) Limited
  - KBC Fund Managers Limited

Note 32: Leasing

In millions of EUR	31-12-2006	31-12-2007
Finance lease receivables		
Gross investment in finance leases, receivable	6 772	7 873
At not more than one year	2 097	2 385
At more than one but not more than five years	2 893	4 087
At more than five years	1 782	1 401
Unearned future finance income on finance leases	690	988
Net investment in finance leases	6 031	6 883
At not more than one year	1 929	2 101
At more than one but not more than five years	2 568	3 726
At more than five years	1 534	1 055
Of which: unguaranteed residual values accruing to the benefit of the lessor	10	9
Accumulated impairment for uncollectable lease payments receivable	60	35
Contingent rents recognised in income	15	17
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases :	50	91
Not more than one year	13	26
More than one but not more than five years	29	55
More than five years	8	9
Contingent rentals recognised in income	0	0

- There are no significant cases in which KBC is the lessee in operating leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leasing: most finance leasing is carried out via separate companies operating mainly in Western and Central and Eastern Europe. KBC offers finance lease products ranging from equipment leasing, to real estate leasing and vendor finance to car leasing. While equipment leasing is typically commercialised in Belgium through KBC group's branch network, vendor finance is designed for producers and suppliers, and car leasing is sold both through the branch networks of KBC Bank and CBC Banque and by an in-house sales team. Typical vendor finance transactions involve EDP hardware, EDP software, medical equipment, containers, trailers and other capital goods. Transactions with non-European customers are also concluded from time to time.

Note 33: Related-party transactions

In millions of EUR	31-12-2006						31-12-2007				
	Parent	Subsidiaries	Associates	Joint Ventures	Other related parties	Total	Parent	Subsidiaries	Associates	Other related parties	Total
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS											
Assets	99	45	500	45	1 373	2 063	88	815	733	2 186	3 822
Loans and advances	98	21	500	45	1 364	2 029	77	40	679	1 176	1 972
Current accounts	1	4	416	5	217	643	0	0	0	122	122
Term loans	97	17	84	41	1 146	1 386	77	40	678	1 054	1 850
Finance leases	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	1	24	0	0	9	34	9	114	6	145	274
Trading securities	1	13	0	0	9	23	7	0	6	133	145
Investment securities	0	11	0	0	0	11	3	114	0	12	129
Other Receivables	0	0	0	0	0	0	2	661	48	865	1 576
Liabilities	1 156	34	21	2	1 879	3 091	178	548	7	5 284	6 017
Deposits	906	34	21	2	1 879	2 841	146	532	7	4 663	5 347
deposits	906	34	21	2	1 879	2 841	146	531	4	4 516	5 197
other borrowings	0	0	0	0	0	0	0	0	3	147	150
Other financial liabilities	250	0	0	0	0	250	0	2	0	347	349
Debt certificates	0	0	0	0	0	0	0	2	0	347	349
Subordinated liabilities	250	0	0	0	0	250	0	0	0	0	0
Share based payments	0	0	0	0	0	0	0	0	0	0	0
Granted	0	0	0	0	0	0	0	0	0	0	0
Exercised	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	32	14	0	274	321
Income statement	11	- 27	21	1	51	57	- 4	- 33	32	36	30
Net interest income	- 7	- 47	14	1	- 34	- 73	- 40	- 30	31	- 130	- 170
Gross earned premiums	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	1	4	0	0	5	17	4	2	0	23
Net fee and commission income	2	18	0	0	66	87	2	- 8	0	147	141
Other income	16	0	3	0	18	38	17	0	0	18	36
Guarantees											
Guarantees issued by the group	0	0	0	0	0	0	0	0	0	0	0
Guarantees received by the group	0	0	0	0	0	0	0	0	0	0	0

	31-12-2006	31-12-2007
TRANSACTIONS WITH DIRECTORS		
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	9	10
Short-term employee benefits	6	6
Post-employment benefits	2	4
defined benefit plans	2	4
defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	1	0
Share options, in units		
At the beginning of the period	94 400	128 200
Granted	39 600	4 600
Exercised	- 25 800	- 8 100
Change in composition of directors	20 000	0
At the end of the period	128 200	124 700
Advances and loans granted to the directors and partners	2	3

- Related-party transactions are transactions with KBC Group NV (the parent company), with subsidiaries (transactions with non-consolidated special purpose vehicles), with associated companies (chiefly NLB) and with other related parties, including the sister companies KBL EPB and KBC Insurance and transactions with KBC Ancora, Cera cvba, MRBB, the pension funds and the directors of the group.
- All related-party transactions occur 'at arm's length'.
- Transactions with KBC Ancora, Cera cvba, MRBB and the group's pension funds are limited in scope.
- There were no material transactions with associated companies other than shown in the table.

Note 34: Auditor's remuneration

In 2007, KBC Bank NV (consolidated) paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 8 373 968 euros for standard audit services. Remuneration paid for non-audit services came to 2 533 122 euros, viz:

- other certifications: 751 245 euros;
- tax advice: 535 474 euros;
- other non-audit assignments: 1 246 403 euros.

Note 35: List of subsidiaries and associated companies

KBC BANK : LIST OF CONSOLIDATED AND NON-CONSOLIDATED COMPANIES

December 31, 2007

LIST OF SUBSIDIARIES FULLY CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
KBC Bank NV	Brussels - BE	0462.920.226	100
AKB "Absolut Bank" (ZAO)	Moscow - RU	--	95
Absolut Capital (Luxembourg) SA	Luxembourg - LU	--	95
Absolut Capital Trust Limited	Limasol - CY	--	95
Absolut Finance SA	Luxembourg - LU	--	95
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100
CBC BANQUE SA	Brussels - BE	0403.211.380	100
CENTEA NV	Antwerp - BE	0404.477.528	99,56
Ceskoslovenska Obchodni Banka a.s.	Prague - CZ	--	100
Auxilium a.s.	Prague - CZ	--	100
Bankovni Informacni Technologie s.r.o.	Prague - CZ	--	100
Business Center s.r.o.	Bratislava - SK	--	100
Centrum Radlická a.s.	Prague - CZ	--	100
CSOB Asset Management a.s.	Prague - CZ	--	100
CSOB Property Fund a.s.	Prague - CZ	--	100
Merrion Properties a.s.	Prague - CZ	--	100
CSOB Asset Management a.s.	Bratislava - SK	--	100
CSOB Distribution a.s.	Prague - CZ	--	100
CSOB d.s.s. a.s.	Bratislava - SK	--	100
CSOB Factoring a.s.	Prague - CZ	--	100
CSOB Factoring a.s.	Bratislava - SK	--	100
CSOB Investicni Spolecnost a.s.	Prague - CZ	--	90,81
CSOB Investment Banking Service a.s.	Prague - CZ	--	100
CSOB Korporatni OPF CSOB Investicni Spolecnosti a.s.	Prague - CZ	--	100
CSOB Leasing a.s.	Prague - CZ	--	100
CSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100
CSOB Leasing a.s.	Bratislava - SK	--	100
CSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100
CSOB Penzijní fond Progres a.s.	Prague - CZ	--	100
CSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100
CSOB Stavebni Sporitelna a.s.	Bratislava - SK	--	100
Hypotecni Banka a.s.	Prague - CZ	--	99,87
Zemsky Penzijni fond a.s.	Prague - CZ	--	100
Economic and Investment Bank AD	Sofia - BG	--	75,58
Fin-Force NV	Brussels - BE	0472.725.639	90
IIB Bank Public Limited Company	Dublin - IE	--	100
Bencrest Properties Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100
Danube Holdings Limited	Dublin - IE	--	100
Dunroamin Properties Limited	Dublin - IE	--	100
Glare Nominee Limited	Dublin - IE	--	100
Homeloans and Finance Limited	Dublin - IE	--	100
IIB Capital Plc.	Dublin - IE	--	100
IIB Finance Limited	Dublin - IE	--	100
IIB Asset Finance Limited	Dublin - IE	--	100
IIB Commercial Finance Limited	Dublin - IE	--	100
IIB Leasing Limited	Dublin - IE	--	100
Khans Holdings Limited	Dublin - IE	--	100
Lease Services Limited	Dublin - IE	--	100

IIB Homeloans and Finance Limited	Dublin - IE	--	100
Cluster Properties Company	Dublin - IE	--	100
Demilune Limited	Dublin - IE	--	100
IIB Homeloans Limited	Dublin - IE	--	100
KBC Homeloans and Finance Limited	Dublin - IE	--	100
Premier Homeloans Limited	Surrey - GB	--	100
Staple Properties Limited	Dublin - IE	--	100
IIB Nominees Limited	Dublin - IE	--	100
Stepstone Mortgage Services Limited	Dublin - IE	--	100
Intercontinental Finance	Dublin - IE	--	100
Irish Homeloans and Finance Limited	Dublin - IE	--	100
Kalzari Limited	Dublin - IE	--	100
Linkway Developments Limited	Dublin - IE	--	100
Maurevel Investment Company Limited	Dublin - IE	--	100
Meridian Properties Limited	Dublin - IE	--	100
Merrion Commercial Leasing Limited	Surrey - GB	--	100
Merrion Equipment Finance Limited	Surrey - GB	--	100
Merrion Leasing Assets Limited	Surrey - GB	--	100
Merrion Leasing Finance Limited	Surrey - GB	--	100
Merrion Leasing Industrial Limited	Surrey - GB	--	100
Merrion Leasing Limited	Surrey - GB	--	100
Merrion Leasing Services Limited	Surrey - GB	--	100
Monastersky Limited	Dublin - IE	--	100
Needwood Properties Limited	Dublin - IE	--	100
Perisda Limited	Dublin - IE	--	100
Phoenix Funding Plc.	Dublin - IE	--	100
Quintor Limited	Dublin - IE	--	100
Rolata Limited	Douglas - IM	--	100
Wardbury Properties Limited	Dublin - IE	--	100
IIB Finance Ireland	Dublin - IE	--	100
KBC Finance Ireland	Dublin - IE	--	100
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
Bemab NV	Brussels - BE	0403.202.670	51,86
KBC Access Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Asset Management Limited	Dublin - IE	--	51,86
KBC Asset Management International Limited	Dublin - IE	--	51,86
KBC Asset Management (UK) Limited	London - GB	--	51,86
KBC Fund Managers Limited	Dublin - IE	--	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Bonds Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Cash Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Conseil Service SA	Luxembourg - LU	--	51,86
KBC Districlick Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Equity Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Fund Partners Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Invest Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Life Invest Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Money Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Renta Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsawa - PL	--	44,74
KBC Bank Deutschland AG	Bremen - DE	--	99,76
KBC Bank Funding LLC II	New York - US	--	100
KBC Bank Funding LLC III	New York - US	--	100
KBC Bank Funding LLC IV	New York - US	--	100
KBC Bank Funding Trust II	New York - US	--	100
KBC Bank Funding Trust III	New York - US	--	100
KBC Bank Funding Trust IV	New York - US	--	100
KBC Bank Nederland NV	Rotterdam - NL	--	100
Westersingel Holding BV	Rotterdam - NL	--	100
KBC Bank (Singapore) Limited	Singapore - SG	--	100
KBC Clearing NV	Amsterdam - NL	--	100
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100
KBC Consumer Finance IFN sa	Bucarest - RO	--	99,95
KBC Credit Invesments NV	Brussels - BE	0887.849.512	100
KBC Dublin Capital Plc.	Dublin - IE	--	100

KBC Financial Products UK Limited	London - GB	--	100
Atomium Funding Corporation SPV	George Town - KY	--	100
Baker Street Finance Limited	Jersey - GB	--	100
Dorset Street Finance Limited	Jersey - GB	--	100
Hanover Street Finance Limited	Jersey - GB	--	100
KBC AIM Master Fund spc - KBC Diversified Fund	George Town - KY	--	98,40
KBC Asia Fund of Funds	George Town - KY	--	94,05
KBC Asia Pacific LP	George Town - KY	--	92,19
KBC Credit Arbitrage Limited	George Town - KY	--	97,70
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100
KBC Financial Products Trading Hong Kong Limited	Hong Kong - HK	--	100
KBC Pacific Fund of Funds	George Town - KY	--	98,66
KBC Special Opportunities Fund	George Town - KY	--	100
Old Brompton Fixed Income Fund Limited	George Town - KY	--	92,50
Pembridge Square Limited	Jersey - GB	--	100
Picaros Funding Plc.	Dublin - IE	--	100
Picaros Purchasing no.3 Limited	Dublin - IE	--	100
Progress Capital Fund Limited	George Town - KY	--	97
Regent Street Finance Limited	Jersey - UK	--	100
Sydney Street Finance Limited	Jersey - UK	--	100
Vertical Lend	Melville - US	--	100
KBC Alternative Investment Management Belgium NV	Brussels - BE	0883.054.940	100
KBC Alternative Investment Management Limited	London - UK	--	100
KBC Alternative Investment Management HK Limited	Hong Kong - HK	--	100
KBC Financial Holding Inc.	Wilmington - US	--	100
Corona Delaware LLC	Delaware - US	--	100
Churchill Finance LLC	Delaware - US	--	100
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100
KBC FP International VI Limited "Cayman VI"	George Town - KY	--	100
KBC Financial Products USA Inc.	New York - US	--	100
KBC FP Cayman Finance Limited "Cayman II"	George Town - KY	--	100
Midas Life Settlements LLC	Delaware - US	--	100
Nabula Holdings LLC	Delaware - US	--	100
Pacifica Group LLC	Delaware - US	--	100
Atlas Insurance Services LLC	Wisconsin - US	--	100
Certo Insurance Services LLC	Delaware - US	--	100
Devon Services LLC	Delaware - US	--	100
Dorato Insurance Services LLC	Delaware - US	--	100
Equity Key LLC	Delaware - US	--	100
Estate Planning LLC	Delaware - US	--	100
H/G II LLC	Delaware - US	--	100
Londsdale LLC	Wisconsin - US	--	100
Oceanus LLC	Wisconsin - US	--	100
Stone River Life LLC	Delaware - US	--	100
Stratford Services LLC	Wisconsin - US	--	100
Welden Insurance Services LLC	Delaware - US	--	100
Pulsar Holdings LLC	Delaware - US	--	100
Spurling I LLC	Delaware - US	--	100
Spurling II LLC	Delaware - US	--	100
Strategic Alpha Limited	George Town - KY	--	100
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100
KBC Consultancy Services Korea Limited	Seoul - KR	--	100
KBC Consultancy Services (Shenzhen) Limited	Shenzhen - CN	--	100
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100
KBC Investments Cayman Islands V Limited	George Town - KY	--	100
KBC Investments Cayman Islands VII Limited	George Town - KY	--	100
KBC Investments Cayman Islands VIII Limited	George Town - KY	--	100
Seoul Value Trust	Seoul - KR	--	100
KBC Investments Limited	London - GB	--	100
KBC International Portfolio SA	Luxembourg - LU	--	99,98
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100
KBC International Finance NV	Rotterdam - NL	--	100

KBC Lease Holding NV	Diegem - BE	0403.272.253	100
Dala Property Holding III BV	Amsterdam - NL	--	100
Sicalis NV	Amsterdam - NL	--	100
Fitraco NV	Antwerp - BE	0425.012.626	100
INK Consultanta - Broker de Asigurare SRL	Bucharest - RO	--	100
KBC Autolease NV	Diegem - BE	0422.562.385	100
KBC Bail Immobilier France sas	Paris - FR	--	100
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100
KBC Lease France SA	Lyon - FR	--	100
KBC Bail France sas	Lyon - FR	--	100
KBC Lease (Nederland) BV	Bussum - NI	--	100
Cathar BV	Bussum - NI	--	100
Gooieen BV	Bussum - NI	--	100
Hospiveen BV	Bussum - NI	--	100
Mercala 1 BV	Bussum - NI	--	100
Mercala 2 BV	Bussum - NI	--	100
KBC Lease Polska Sp z.o.o.	Warsawa - PL	--	100
KBC Lease (UK) Limited	Surrey - GB	--	100
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg - DE	--	91,94
KBC Autolease (Deutschland) GmbH	Kronberg - DE	--	91,94
KBC Immobilienlease (Deutschland) GmbH	Kronberg - DE	--	91,94
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg - DE	--	91,94
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg - DE	--	91,94
KBC Vendor Finance (Deutschland) GmbH	Kronberg - DE	--	91,94
KBC Vendor Lease (Deutschland) GmbH	Kronberg - DE	--	91,94
Protection One Service GmbH	Kronberg - DE	--	91,94
SCS Finanzdienstleistungs- GmbH	Kronberg - DE	--	91,94
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg - DE	--	75,94
KBC Lease España SA	Madrid - ES	--	100
KBC Lease Italia S.p.A.	Verona - IT	--	100
KBC Lease (Luxembourg) SA	Strassen - LU	--	100
KBC Lizing Magyarország Kereskedelmi és Szolgátató Kft.	Budapest - HU	--	100
KBC Vendor Lease NV	Diegem - BE	0444.058.872	100
Romstal Leasing IFN SA	Bucharest - RO	--	99,34
Securitas sam	Nandrin - MC	--	100
KBC Peel Hunt Limited	London - GB	--	99,99
KBC Peel Hunt CFD Limited	London - GB	--	99,99
KBC Peel Hunt Incorporated	London - GB	--	99,99
Peel Hunt Nominees Limited	London - GB	--	99,99
P.H. Nominees Limited	London - GB	--	99,99
P.H. Trustees Limited	London - GB	--	99,99
KBC Pinto Systems NV	Brussels - BE	0473.404.540	60,01
KBC Private Equity NV	Brussels - BE	0403,226,228	100
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco International NV	Moorsel - BE	0444.223.079	89,54
Dynaco USA Inc.	Northbrook - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52
Mezzafinance NV	Brussels - BE	0453.042.260	100
Novaservis a.s.	Brno - CZ	--	94,57
Wever & Ducré Lighting Group NV	Roeselare - BE	0891.731.886	50,01
Wever & Ducré NV	Roeselare - BE	0412.881.191	50,01
Wever & Ducré GmbH	Herzogenrath - DE	--	50,01
Wever & Ducré BV	Den Haag - NL	--	50,01
Wever & Ducré Iluminacion SL	Madrid - ES	--	50,01
Wever & Ducré Asia Pacific Limited	Hong Kong - HK	--	50,01
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100
KBC Real Estate NV	Zaventem - BE	0404.040.632	73,18
Almafin Real Estate NV	Brussels - BE	0403.355.494	73,18
Immo Arenberg NV	Brussels - BE	0471.901.337	73,18
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	72,44
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	64,32
Novoli Investors BV	Amstelveen - NL	--	60,98
Poelaert Invest NV	Zaventem - BE	0478.381.531	73,17
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	73,18

KBC Securities NV	Brussels - BE	0437.060.521	100
KBC Equitas LLC	Budapest - HU	--	100
KBC Securitas a.d. Beograd	Belgrade - RS	--	100
KBC Securities Baltic Investment Company sia	Riga - LV	--	51,05
KBC Securities Ukraine LLC	Kiev - UA	--	51,05
KBC Securities Romania SA	Bucarest - RO	--	100
SAI Swiss Capital Asset Management SA	Bucarest - RO	--	100
Ligeva NV	Mortsel - BE	0437.002.519	100
Patria Finance a.s.	Prague - CZ	--	100
Patria Finance CF a.s.	Prague - CZ	--	100
Patria Finance Slovakia a.s.	Bratislava - SK	--	100
Patria Online a.s.	Prague - CZ	--	100
Patria Direct a.s.	Prague - CZ	--	100
Kereskedelmi és Hitelbank Rt.	Budapest - HU	--	100
K & H Alkusz Kft.	Budapest - HU	--	100
K & H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100
K & H Equities Rt.	Budapest - HU	--	100
K & H Ertékpapir Befektetési Alapkezelö Rt.	Budapest - HU	--	100
K & H Lízingadminisztrációs Rt.	Budapest - HU	--	100
K & H Eszközfinanszirozó Rt.	Budapest - HU	--	100
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest - HU	--	100
K & H Lizingház Rt.	Budapest - HU	--	100
K & H Pannonlizing Rt.	Budapest - HU	--	100
K & H Autófinanszirozó Pénzügyl Szolgátató Rt.	Budapest - HU	--	100
K & H Autópark Bérleti és Szolg Kft.	Budapest - HU	--	100
K & H Ingatlanlizing Kft.	Budapest - HU	--	100
K & H Lizing Rt..	Budapest - HU	--	100
Kvantum Követeléskezelõ és Befektetési Rt.	Budapest - HU	--	100
Kredyt Bank SA	Warsawa - PL	--	80
Kredyt International Finance BV	Rotterdam - Nl	--	80
Kredyt Lease SA	Warsawa - PL	--	80
Kredyt Trade Sp z.o.o.	Warsawa - PL	--	80
Reliz SA	Katowice - PL	--	80
Zagiel SA	Warsawa - PL	--	80
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100
Quasar Securitisation Company NV	Brussels - BE	0475.526.860	100

LIST OF SUBSIDIARIES NOT FULLY CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
ADB Private Equity Limited (1)	Jersey - GB	--	80
Aldersgate Finance Limited (1)	Jersey - GB	--	100
Almafin Real Estate Services NV (1)	Zaventem - B	0416.030.525	73,18
Almaloisir & Immobilier sas (1)	Nice - FR	--	73,18
Apitri NV (1)	Diegem - BE	0469.889.873	73,18
Atomium Funding LLC (1)	Delaware - US	--	100
Avebury Limited (1)	Dublin - IE	--	100
Baker Street USD Finance Limited (1)	Jersey - GB	--	100
Bankowa Polana Sp z.o.o. (1)	Warsawa - PL	--	53,60
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warsawa - PL	--	80,00
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	73,18
Chiswell Street Finance Limited (1)	Jersey - GB	--	100
City Hotels NV (1)	Zaventem - BE	0416.712.394	62,57
City Hotels International NV (1)	Zaventem - BE	0449.746.735	62,57
CH Corp (1)	Rockville - US	--	62,57
Clifton Finance Street Limited (1)	Jersey - GB	--	100
Dala Beheer BV (1)	Amsterdam - NL	--	73,18
Dala Property Holding XV BV (1)	Amsterdam - NL	--	73,18

Distienen NV (1)	Zaventem - BE	0452.312.285	73,18
Dorlick Vastgoedmaatschappij NV (1)	Zaventem - BE	0434.885.345	73,18
Eurincasso s.r.o. (1)	Prague - CZ	--	100
Fidabel NV (1)	Brussels - BE	0417.309.044	0,80
Fulham Road Finance Limited (1)	Jersey - GB	--	100
Gie Groupe KBC Paris (1)	Paris - FR	--	100
Immo-Accent NV (2)	Brussels - BE	0465.538.335	73,17
Immo-Antares NV (2)	Brussels - BE	0456.398.361	69,52
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	69,52
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	36,59
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	64,04
Immo-Duo NV (1)	Zaventem - BE	0435.573.154	73,18
Immo Genk-Zuid NV (1)	Zaventem - BE	0464.358.497	73,18
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	36,59
Immolease-Trust NV (1)	Zaventem - BE	0406.403.076	73,18
Immo-Llan NV (2)	Brussels - BE	0448.079.820	99,56
Immo Lux-Airport SA (2)	Luxembourg - LU	--	48,76
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	69,52
Immo-North Plaza NV (2)	Brussels - BE	0462.118.688	73,17
IMMO PARIJSSTRAAT NV (1)	Leuven - BE	0439.655.765	100
Immo-Plejaden NV (2)	Brussels - BE	0461.434.344	73,17
Immo-Quinto NV (1)	Zaventem - BE	0466.000.470	73,18
Immo-Regentschap NV (2)	Brussels - BE	0452.532.714	54,88
Immo-Tres NV (1)	Zaventem - BE	0465.755.990	73,18
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	73,18
KB-Consult NV (1)	Brussels - BE	0437.623.220	100
KBC Alternative Investment Management (USA) Inc. (1)	Delaware - US	--	100
KBC Broker a.d. (1)	Belgrade - RS	--	100
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100
KBC Group NV (1)	Brussels - BE	0403.227.515	1,08
KBC North American Finance Corporation (1)	Delaware - US	--	100
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100
KBC Private Equity Advisory Services s.r.o. (1)	Prague - CZ	--	100
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warsawa - PL	--	100
KBC Private Equity Consulting S.R.L. (1)	Bucarest - RO	--	100
KBC Securities B-H a.d. Banja Luka (1)	Banjaluka - BA	--	100
KBC Securities Corporate Finance LLC (1)	Belgrade - RS	--	60
KBC Securities Montenegro a.d. Potgorica (1)	Montenegro - CS	--	100
KBC Securities Skopje a.d. Skopje (1)	Skopje - MK	--	100
KBC Structured Finance Limited (1)	Sydney - AU	--	100
KBC Vastgoed Portefeuille Nederland (1)	Rotterdam - NL	--	73,18
KBC Verzekeringen NV (1)	Leuven - BE	0403.552.563	0,00
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100
Kredietlease (UK) Limited (1)	Surrey - GB	--	100
Kredyt Bank SA i TUiR WARTA SA (1)	Warsawa - PL	--	100
Liontamer Investment Management Pty Limited (1)	Sydney - AU	--	26,45
Liontamer Investment Services Limited (1)	Auckland - NZ	--	26,45
LIZAR Sp z.o.o. (1)	Warsawa - PL	--	80
Lombard Street Limited (1)	Dublin - IE	--	100
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	73,18
Luxembourg Offices Securitisations SA (1)	Luxembourg - LU	--	73,17
Mechelen City Center NV (1)	Heffen - BE	0471.562.332	73,18
Motokov a.s. (1)	Prague - CZ	--	69,10
Net Banking Sp z.o.o. (1)	Warsawa - PL	--	80
Newcourt Street Finance Limited (1)	Jersey - GB	--	100
Omnia cvba	Leuven - BE	0413.646.305	0,01
OOO "Absolut Lizing" (1)	Moscow - RU	--	95
OOO Lizingovaya Kompaniya "Absolut" (1)	Moscow - RU	--	95
Oxford Street Finance Limited (1)	Jersey - GB	--	100
Parkeergarage De Panne NV (1)	Brussels - BE	0881.909.548	65,86
Pericles Invest NV (1)	Zaventem - BE	0871.593.005	43,30
Picaros Funding LLC (1)	Wilmington - US	--	100
Picaros Purchasing No.1 Limited (1)	Dublin - IE	--	100
Picaros Purchasing No.2 Limited (1)	Dublin - IE	--	100
Renthotel Utah LC (1)	Rockville - US	--	62,57
Renthotel Singer LLC (1)	Rockville - US	--	62,57

Risk Kft. (1)	Budapest - HU	--	99,96
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	51,22
SM Vilvoorde NV (1)	Zaventem - BE	0425.859.197	73,18
Sunrise Asset Manangement Co Limited (1)	Tapei - TW	--	28
TEE Square Limited (1)	Road Town - VG	--	100
Threadneedle Finance Limited (1)	Jersey - GB	--	100
Trustimmo NV (1)	Zaventem - BE	0413.954.626	73,18
Valuesource NV (1)	Brussels - BE	0472.685.453	0,01
Vastgoedmaatschappij Manhattan-Kruisvaarten NV (1)	Zaventem - BE	0419.336.938	73,18
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	99,76
Wetenschap Real Estate NV (1)	Zaventem - BE	0871.247.565	99,76
Weyveld Vastgoedmaatschappij NV (1)	Zaventem - BE	0425.517.818	86,59
Willowvale Company (1)	Dublin - IE	--	100

reason for exclusion : (1) exclusion based on limited importance
(2) real estate companies and certificates where the result is not allocated to the Group

LIST OF THE JOINT SUBSIDIARIES PROPORTIONAL CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
Ceskomaravská Stavebni Sporitelna a.s.	Prague - CZ	--	55
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50
CSOB Pojist'ovna a.s.	Pardubice - CZ	--	25
Immobiliare Novoli S.p.A.	Firenze - IT	--	32,78
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	25,41
Real Estate Participation NV	Zaventem - BE	0473.018.817	50
Société Agricole des Grands Lacs SA	Luxembourg - LU	--	50
Romarin Real Estate sas	Lille - FR	--	50

LIST OF THE JOINT SUBSIDIARIES NOT PROPORTIONAL CONSOLIDATED (1)

name of the company	registered office	identification number	share of capital held (in %)
Atrium Development SA	Luxembourg - LU	--	25
Barbarahof NV	Zaventem - BE	0880.789.197	21,95
Consorzio Sandonato Est	Firenze - IT	--	16,68
Covent Garden Development NV	Brussels - BE	0892.236.187	25
FM-A Invest NV	Diegem - BE	0460.902.725	36,59
Immocert t'Serclaes NV	Zaventem - BE	0433.037.989	36,59
Jesmond Amsterdam NV	Amsterdam - NL	--	50
Miedziana Sp z.o.o.	Warsawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St Niklaas - BE	0437.938.766	36,59
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	36,59
Pakobo NV	Diegem - BE	0474.569.526	36,59
Rumst Logistics NV	Machelen - BE	0862.457.583	36,59
Perifund NV	Brussels - BE	0465.369.673	36,59
Prague Real Estate NV	Zaventem - B	0876.309.678	36,59
Real Estate Administration a.s.	Prague - CZ	--	21,99
Resiterra NV	Zaventem - BE	0460.925.588	36,59
Rumst Logistics II NV	Machelen - BE	0880.830.076	36,59
Rumst Logistics III NV	Machelen - BE	0860.829.383	36,59

Sandonato Parcheggi Srl	Firenze - IT	--	32,71
Sandonato Srl	Firenze - IT	--	32,71

(1) exclusion based on limited importance

LIST OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

name of the company	registered office	identification number	share of capital held (in %)
Budatrend III. Ingatlanhasznositó Rt.	Budapest - HU	--	34,33
Foxhill Opportunity Offshore Fund	Princeton - GB	--	43
Giro Elszámolásforgáltató Rt.	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest - HU	--	25
Isabel NV	Brussels - BE	0455.530.509	25,33
K & H International Treasury Service Szolg. Kft.	Budapest - HU	--	100
Nova Ljubljanska Banka d.d.	Ljubljana - SI	--	34
Prague Stock Exchange a.s.	Prague - CZ	--	24,39

LIST OF COMPANIES NOT ACCOUNTED FOR USING THE EQUITY METHOD (1)

name of the company	registered office	identification number	share of capital held (in %)
Banking Funding Company NV	Brussels - BE	0884.525.182	22,90
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Noordoost-Antwerpen NV	Antwerp - BE	0455.474.485	21,28
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Brand and Licence Company NV	Brussels - BE	0884.499.250	20
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20
Etoiles d'Europe sas	Paris - FR	--	32,93
Justinvest Antwerpen NV	Antwerp - BE	0476.658.097	24,39
Kattendijkdok NV	Antwerp - BE	0863.854.482	28,54
Prvni Certifikacni Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	18,29
Sea Gate Logistics NV	Aalst - BE	0480.040.627	18,29
Transportbeton GmbH	Delmenhorst - DE	--	25,88

(1) exclusion based on limited importance

- The companies accounted for using the equity method (see table) have combined total assets, equity and a net result of 14.4 billion euros, 0.8 billion euros and 105 million euros, respectively.

Note 36: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at KBC Group level		Comments
		31-12-2006	31-12-2007	
ADDITIONS				
Absolut Bank	Full	-	95,00%	in profit as of 3Q07
Economic and Investment Bank AD	Full	-	75,59%	in profit as of 1Q08
EXCLUSIONS				
Banksys and Bank Card Company	Equity	-	-	sold in 4Q 2006
CHANGES IN OWNERSHIP PERCENTAGE				
KBC Commercial Finance NV (ex-International Factors NV)	Full	50,00%	100,00%	2Q07: acquisition of the remaining 50%
CSOB a.s.	Full	97,44%	100,00%	squeeze-out in 2Q07

Note 37: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting event after balance sheet date was:

- The reaching of a compromise settlement by the group with a number of insurance companies regarding a legal dispute. No additional information can be provided on this matter, as it might prejudice the group's position.

Note 38: General information (IAS 1)

Name	KBC Bank NV
Incorporated	17 March 1998
Country of incorporation	Belgium
Registered office	2 Havenlaan, BE-1080 Brussels
VAT	BE 0462.920.226
RLP	Brussels
Legal form	*Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a bank registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

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

General Meeting of Shareholders

Each year, at the registered office of the company or elsewhere, as indicated in the convening notice, a general meeting is held on the Wednesday immediately preceding the last Thursday in April or, if that day is a legal holiday, on the last business day immediately preceding it, at 11 a.m.

In order to be admitted to the General Meeting, the holders of bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice.

The owners of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

Annual report KBC Bank

2 0 0 7

Volume 2

Table of contents

This volume contains the company annual accounts of KBC Bank, as filed with the National Bank of Belgium.

Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium.

RLP 0403 227 515, bank account No. 734-0051374-70.
KBC Bank NV, CBFA registration No. 26 256.

				9	EUR	
NAT.	Date of filing	No.	PP.	B.	D.	1.

ANNUAL ACCOUNTS

FIRM OR NAME : KBC BANK
Legal form : NV
Address : Havenlaan
Postal code : 1080 Municipality : Brussels
Nr : 2 Box :
Register of corporate bodies - Chamber of Commerce : Brussels
Internetaddress : http://www.kbc.be

Company number 0462.920.226

DATE 21/12/2007 of filing of the deed op incorporation OR the most recent document stating the date on which the deed of incorporation and the deed amending the articles of association were published

ANNUAL ACCOUNT approved by the General Meeting of 23/04/2008

concerning the financial year covering the period from 01/01/2007 till 31/12/2007

Preceding period from 01/01/2006 till 31/12/2006

The amounts for the preceding period are identical to those previously published yes / ~~no~~

COMPLETE LIST with name, first names,occupation place of residence(address, number, postal code and municipality) of both the DIRECTORS OR MANAGERS of the enterprise and of the AUDITORS who audited the accounts.

CHAIRMAN OF THE BOARD OF DIRECTORS
Mr. Jan HUYGHEBAERT — Copernicusstraat 12, 1180 UKKEL

PRESIDENT OF THE EXECUTIVE COMMITTEE
Mr. André BERGEN — Coupure R 164Q, 9000 GENT

MEMBERS:

Mr. Herman AGNEESSENS	Edelweisslaan 47, 3080 TERVUREN
Mr. Franky DEPICKERE	Izegemstraat 203, 8770 INGELMUNSTER
Mr. Frans FLORQUIN	Dewittelaan 7 bus 202, 8670 KOKSIJDE
Mr. Luc PHILIPS	Platanenlaan 14, 1820 PERK
Mr. Guido SEGERS	Torenstraat 114, 3110 ROTSELAAR
Mr. Jan VANHEVEL	Max Hermanlei 8, 2930 BRASSCHAAT
Mr. Germain VANTIEGHEM	Dalemstraat 9, 3078 KORTENBERG
Mr. Marc WITTEMANS	Winkselsesteenweg 41, 3020 HERENT
Mr. Paul PEETERS	Molenstraat 2 A , 2811 MECHELEN
Mr. Lode MORLION	Weststraat 18, 8647 LO-RENINGE
Mrs. Sonja DE BECKER	Meerbeekstraat 20, 3071 ERPS-KWERPS
Mrs. Marita ORLENT-HEYVAERT	Richard Orlentstraat 5, 2070 ZWIJNDRECHT
Mr. Gustaaf SAP	Stationsstraat 70, 8730 BEERNEM
Mr. Pierre KONINGS	Prins Van Oranjelaan 178, 1180 BRUSSEL
Mr. Patrick VANDEN AVENNE	Desselgemsestraat 15, 8710 OOIGEM
Mr. Dirk WAUTERS	Bovenbosstraat 17, 3052 BLANDEN
Mr. Julien DE WILDE	Jabekestraat 49, 9230 WETTEREN
Mr. Christian DEFRANCQ	Zonnelaan 23, 3070 KORTENBERG
Mr. Etienne VERWILGHEN	Rue des Foyers 3, LU 1537 LUXEMBOURG

AUDITOR
Ernst & Young Bedrijfsrevisoren c.v., Moutstraat 54, 9000 GENT, represented by Jean-Pierre ROMONT and Danielle VERMAELEN

Total number of pages filed :
Number of pages of the standardform not being filed becouse they are not relevant :

These annual accounts include:
- the report of the statutory auditor
- annual report of the Board of Directors to the ordinary General Meeting of shareholders

A. BERGEN
President of the executive committee

J. HUYGHEBAERT
President of the board of directors

NO	0462.920.226

	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
1. BALANCE SHEET AFTER PROFIT APPROPRIATION			
ASSETS			
I. Cash in hand, balances at central banks and post office banks	101.000	511,437	392,899
II. Treasury bills eligible for refinancing at the central bank	102.000	180,795	1,405,267
III. Loans and advances to credit institutions	103.000	51,388,559	31,045,906
A. Repayable on demand	103.100	4,516,606	548,309
B. Other loans and advances (with agreed maturity dates or periods of notice)	103.200	46,871,953	30,497,597
IV. Loans and advances to customers	104.000	99,587,943	82,749,169
V. Bonds and other fixed-income securities	105.000	33,250,049	41,477,942
A. Issued by public bodies	105.100	21,541,742	28,492,188
B. Issued by other borrowers	105.200	11,708,307	12,985,754
VI. Shares and other variable-yield securities	106.000	449,845	720,710
VII. Financial fixed assets	107.000	16,229,745	9,080,437
A. Participating interests in affiliated enterprises	107.100	14,265,987	7,561,902
B. Particpating interests in other enterprises linked by participating interests	107.200	489,115	460,815
C. Other shares constituting financial fixed assets	107.300	185,316	219,034
D. Subordinated loans and advances to affiliated enterprises and other enterprises linked by participating interests	107.400	1,289,327	838,686
VIII. Formation expenses and intangible fixed assets	108.000	241	113
IX. Tangible fixed assets	109.000	769,715	750,716
X. Own shares	110.000		
XI. Other assets	111.000	1,830,031	1,304,420
XII. Deferred charges and accrued income	112.000	15,373,557	14,606,268
TOTAL ASSETS	199.000	219,571,917	183,533,847

NO	0462.920.226

		Period	Preceding Period
		(in thousands of EUR)	
	Codes	05	10
LIABILITIES			
I. Amounts owed to credit institutions	201.000	64,846,411	49,287,066
A. Repayable on demand	201.100	11,872,474	6,775,820
B. Amounts owed as a result of the rediscounting of trade bills	201.200		
C. Other debts (with agreed maturity dates or periods of notice)	201.300	52,973,937	42,511,246
II. Amounts owed to customers	202.000	110,170,708	94,792,070
A. Saving deposits	202.100	20,556,389	22,736,503
B. Other debts	202.200	89,614,319	72,055,567
1) Repayable on demand	202.201	26,322,928	21,673,820
2) With agreed maturity dates or periods of notice	202.202	63,290,552	50,342,383
3) As a result of the rediscounting of trade bills	202.203	839	39,364
III. Debts represented by securities	203.000	8,473,059	7,733,542
A. Bonds and other fixed-income securities in circulation	203.100	1,076,723	1,112,868
B. Other debt instruments	203.200	7,396,336	6,620,674
IV. Other liabilities	204.000	2,409,934	2,179,334
V. Accrued charges and deferred income	205.000	16,875,144	15,295,236
VI. A. Provisions for liabilities and charges	206.100	236,096	258,413
1. Pensions and similar commitments	206.101	48,848	67,054
2. Taxation	206.102	6,136	4,674
3. Other liabilities and charges	206.103	181,112	186,685
B. Deferred taxes	206.200		
VII. Fund for General Banking Risks	207.000		
VIII. Subordinated liabilities	208.000	7,557,458	6,532,537
CAPITAL AND RESERVES	290.000	9,003,107	7,455,649
IX. Capital	209.000	4,030,110	3,763,334
A. Subscribed capital	209.100	4,030,110	3,763,334
B. Uncalled capital (-)	209.200		
X. Share premium account	210.000	1,723,224	489,999
XI. Revaluation reserve	211.000		
XII. Reserves	212.000	3,249,751	3,202,294
A. Legal reserve	212.100	403,011	353,006
B. Reserves not available for distribution	212.200		
1. Own	212.201		
2. Other	212.202		
C. Untaxed reserves	212.300	78,834	81,382
D. Reserves available for distribution	212.400	2,767,906	2,767,906
XIII. Profit brought forward	213.000	22	22
TOTAL LIABILITIES	299.000	219,571,917	183,533,847

NO	0462.920.226

OFF-BALANCE-SHEET HEADINGS	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
I. Contingent liabilities	301.000	40,850,573	33,821,727
A. Non-negotiated acceptances	301.100	125,263	51,311
B. Guarantees in the nature of direct credit substitutes	301.200	6,166,019	3,837,703
C. Other guarantees	301.300	33,025,078	28,580,975
D. Documentary credits	301.400	1,534,209	1,351,734
E. Assets charged as collateral security on behalf of third parties	301.500	4	4
II. Commitments carrying a potential credit risk	302.000	46,339,054	41,737,645
A. Firm credit commitments	302.100	7,498,336	2,766,230
B. Commitments arising from spot purchases of securities	302.200	506,960	110,162
C. Undrawn margin on confirmed credit lines	302.300	38,274,089	38,856,691
D. Underwriting and placing commitments	302.400	59,669	4,562
E. Commitments as a result of open-ended sale and repurchase agreements	302.500		
III. Assets lodged with the credit institution	303.000	249,770,142	174,847,989
A. Assets held for fiduciary purposes	303.100	3,138,839	3,103,256
B. Safe custody and equivalent items	303.200	246,631,303	171,744,733
IV. Uncalled share capital	304.000	36,621	37,488

2. PROFIT AND LOSS ACCOUNT

	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
I. Interest receivable and similar income	401.000	8,753,950	6,838,209
of which income from fixed-income securities	401.001	2,064,003	2,066,574
II. Interest payable and similar charges	502.000	(7,456,840)	(5,422,878)
III. Income from variable-yield securities	403.000	1,085,378	802,238
A. From shares and other variable-yield securities	403.100	23,474	18,555
B. From participating interests in affiliated enterprises	403.200	1,037,471	757,268
C. From participating interests in other enterprises linked by participating interests	403.300	15,901	11,141
D. Other shares constituing financial fixed assets	403.400	8,532	15,274
IV. Commission receivable	404.000	939,980	865,383
V. Commission payable (-)	505.000	(238,762)	(214,240)
VI. Profit (loss) on financial transactions	506.000	229,809	175,255
A. On the trading of securities and other financial instruments	506.100	161,273	104,592
B. On the disposal of investment securities	506.200	68,536	70,663
VII. General administrative expenses (-)	507.000	(1,506,125)	(1,420,576)
A. Remuneration, social security costs and pensions	507.100	822,085	809,402
B. Other administrative expenses	507.200	684,040	611,174
VIII. Depreciation and write-downs on formation expenses and on intangible and tangible fixed assets (-)	508.000	(52,063)	(49,426)
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'	509.000	(38,621)	3,133
X. Adjustments to write-downs (Write-downs (-)) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	510.000	(7,387)	3,770
XI. Utilization and write-back of 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'	411.000	101,541	42,047
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'	512.000	(57,543)	(34,298)
XIII. Transfer from (Transfer to) the Fund for General Banking Risks	513.000		
XIV. Other operating income	414.000	162,532	151,220
XV. Other operating charges (-)	515.000	(85,750)	(80,159)
XVI. Profit (Loss) on ordinary activities before tax	416.000	1,830,099	1,659,678

NO	0462.920.226

APPROPRIATION ACCOUNT	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
A. Profit (Loss (-)) to be appropriated	600.100	1,689,426	1,490,790
1. Profit (Loss (-)) for the period available for appropriation	600.101	1,689,404	1,490,769
2. Profit (Loss (-)) brought forward from the previous financial year	600.102	22	21
B. Transfers from capital and reserves	600.200		
1. From capital and share premium account	600.201		
2. From reserves	600.202		
C. Appropriation to capital and reserves (-)	600.300	(50,005)	(74,538)
1. To capital and share premium account	600.301		
2. To the legal reserve	600.302	50,005	74,538
3. To others reserves	600.303		
D. Result to be carried froward	600.400	(22)	(22)
1. Profit to be carried forward (-)	600.401	(22)	(22)
2. Loss to be carried forward	600.402		
E. Shareholders' contribution in respect of losses	600.500		
F. Profit for distribution (-)	600.600	(1,639,399)	(1,416,230)
1. Dividends (a)	600.601	1,590,817	1,367,327
2. Directors' entitlements (a)	600.602	725	709
3. Other allocations	600.603	47,857	48,194

(a) only for companies with restricted liability governed by Belgian law

3. ANNEX

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS

(in thousands of EUR)

(Assets heading III.)

A. For the heading as a whole :

	Period	Preceding Period
Codes	05	10
1. - Loans and advances to affiliated enterprises 010	21,195,347	10,553,520
- Loans and advances to other enterprises linked by participating interests 020	634,589	

	Period	Preceding Period
Codes	05	10
2. - Subordinated loans and advances 030		

B. Other loans and advances (with agreed maturity dates or periods of notice) to credit institutions (Assets sub-heading III.B.)

	Period	Preceding Period
Codes	05	10
1. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment 040	147	294

2. Analysis of loans and advances according to remaining maturity :

	Period
Codes	05
. up to three months 050	35,656,624
. more than three months and up to one year 060	7,379,354
. more than one year and up to five years 070	3,540,125
. more than five years 080	181,218
. undated 090	114,632

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS

(Assets heading IV.)

(in thousands of EUR)

1. Loans and advances to

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	26,002,521	13,110,390
- other enterprises linked by participating interests	020	8,928	723,230

2. Subordinated loans and advances

Codes	Period 05	Preceding Period 10
030	524,567	12,215

3. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment

Codes	Period 05	Preceding Period 10
040		

4. Analysis of loans and advances according to remaining maturity :

	Codes	Period 05
. up to three months	050	51,200,496
. more than three months and up to one year	060	6,190,638
. more than one year and up to five years	070	8,917,644
. more than five years	080	28,676,257
. undated	090	4,602,908

5. Analysis of loans and advances according to type:

	Codes	Period 05
. trade bills (including own acceptances)	100	221,052
. loans and advances arising from leasing and similar claims	110	756,130
. fixe-rate loans	120	1,067,001
. mortgage loans	130	14,777,179
. other loans at terms of more than one year	140	30,889,064
. other loans and advances	150	51,877,517

6. Geographical analysis of loans and advances * :

	Codes	Period 05
. loans and advances in respect of Belgium	160	54,972,123
. loans and advances in respect of other countries	170	44,615,820

7. Breakdown of mortgage loans, with reconstitution at the institution or linked to which there are life assurance and capitalization agreements

	Codes	Period 05
a) . Capital borrowed initially	180	
b) . Reconstitution and actuarial reserves for these loans	190	
c) . Net amount outstanding for these loans (a-b)	200	

* Amount for trade bills is broken down according to beneficiary of the credit.

III. STATEMENT OF BONDS AND OTHER FIXED-YIELD SECURITIES

(Assets heading V.)

(in thousands of EUR)

1. Bonds and other securities issued by :

	Period	Preceding Period
Codes	05	10
010 - affiliated enterprises	2,256,124	478,219
020 - enterprises linked by participating interests	5,308	771

2. Bonds and other securities representing subordinated loans

	Period	Preceding Period
Codes	05	10
030	47,388	48,251

3. Geographical analysis of the following sub-headings :

	Belgian issuers	Foreign issuers
040 V.A. . issued by public bodies	11,763,769	9,777,973
050 V.B. . issued by other borrowers	2,296,883	9,411,424

4. Listing and maturity

	Carrying value	Market value
060 a) . Listed securities	30,502,504	30,333,167
070 . Unlisted securities	2,747,545	

	Period
Codes	05
080 b) . Remaining maturity of up to one year	7,150,998
090 . Remaining maturity of more than one year	26,099,051

5. Analysis of bonds and other securities classified according to :

	Period
Codes	05
100 a) . Trading portfolio	11,127,944
110 b) . Investment portfolio	22,122,105

6. Trading portfolio :

	Period
Codes	05
120 . the positive difference between the higher market value and acquisition value of the bonds and other securities valued at market value	21,451
130 . the positive difference between the higher market value and the acquisition value of the bonds and securities valued in accordance with Article 35 ter, §2, paragraph two of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions	

7. Investment portfolio :

	Period
Codes	05
140 . the positive difference in respect of all securities whose redemption value is greater than their carrying value	312,608
150 . the negative difference in respect of all securities whose redemption value is less than their carrying value	376,079

8. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading V.)

(in thousands of EUR)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	010	33,574,677
Movements during the financial year :		
. acquisitions	020	5,328,558
. transfers (-)	030	(16,515,833)
. adjustments pursuant to Art. 35 ter, §4 and 5 (+/-) of the royal decree of September 23, 2992 concerning the annual accounts of credit institutions	040	(160,650)
. price difference (+/-)	050	(90,588)
As at the end of the financial year	099	22,136,164
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	110	
. from the trading portfolio to the investment portfolio (+)	120	
2. Repercussion on the result	130	
c) WRITE-DOWNS		
As at the end of the financial year	200	6,070
Movements during the financial year		
. recorded	210	9,075
. written back as being redundant	220	(1,085)
. written off	230	
. transfer from one heading to another	240	
. price difference (+/-)	250	
As at the end of the financial year	299	14,060
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	399	22,122,104

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES

(Assets heading VI.)

(in thousands of EUR)

1. Geographical analysis of issuers :

	Codes	Period 05
- Belgian issuers	010	1,757
- foreign issuers	020	448,088

2. Listing :

		Carrying value	Market value
- listed securities	030	443,578	443,649
- unlisted securities	040	6,267	

3. Analysis of shares and other securities classified according to :

	Codes	Period 05
. Trading portfolio	050	433,617
. Investment portfolio	060	16,228

4. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the shares and other securities valued at market value	070	19,722
. the positive difference between the market value and carrying value of securities valued in accordance with Article 35 ter, §2, paraggraph two of the royal decree of 23 September 1992on the annual accounts of credit institutions	080	

5. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading VI.)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	100	117,285
Movements during the financial year :		
. acquisitions	110	10,940
. transfers (-)	120	(102,149)
. other changes	130	(76)
As at the end of the financial year	199	26,000
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	200	
. from the trading portfolio to the investment portfolio (+)	210	
2. Repercussion on the result	220	
c) WRITE-DOWNS		
As at the end of the financial year	300	10,646
Movements during the financial year		
. recorded	310	1,005
. written back as being redundant	320	(1,607)
. written off	330	
. transfer from one heading to another	340	
. price differences	350	(272)
As at the end of the financial year	399	9,772
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	499	16,228

V. STATEMENT OF FINANCIAL FIXED ASSETS

(Assets heading VII)

A1. Analysis of assets sub-headings VII.A,B,C :

a) Economic sector of the following holdings

A. participating interests in affiliated enterprises
B. participating interests in other enterprises linked by participating interests
C. Other shares constituting financial fixed assets

b) Listing

A participating interests in affiliated enterprises
B participating interests in other enterprises linked by participating interests
C. Other shares constituting financial fixed assets

(in thousands of EUR)

	Credit institutions		Other companies	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
010	6,188,312	4,623,713	8,077,675	2,938,189
020	467,451	433,451	21,664	27,364
030	101,955	196,081	83,361	22,953

	Listed	Unlisted
Codes	05	10
040	1,058,853	13,207,134
050	10,799	478,316
060	169,924	15,392

A2. Detailed statement of carrying value as at the end of the financial year of assets headings VII.A, B and C

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)
A. ACQUISITION VALUE			
100 As at the end of the previous financial year	7,607,365	484,995	219,699
110 Movements during the financial year: . Acquisitions	6,771,036	34,055	111,629
120 . Transfers and asset retirements (-)	(66,855)	(16,179)	(94,106)
130 . Transfers from one heading to another (+/-)	122	10,529	(10,651)
199 As at the end of the financial year	14,311,668	513,400	226,571
B. SURPLUS VALUES			
200 Movements during the financial year:			
210 . Recorded			
220 . Acquired from third parties			
230 . Written off (-)			
240 . Transfers from one heading to another (+/-)			
299 As at the end of the financial year			
C. WRITE-DOWNS			
300 As at the end of the previous financial year	45,463	24,180	665
310 Movements during the financial year: . Recorded	218	105	40,590
320 . Written back as being redundant (-)			
330 . Acquired from third parties			
340 . Written off (-)			
350 . Transfers from one heading to another (+/-)			
399 As at the end of the financial year	45,681	24,285	41,255
E. NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (A + B - C)			
499	14,265,987	489,115	185,316

ARTICLE 29, 1 UNCLAIMED AMOUNTS ON PARTICIPATIONS AND SHARES

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)	TOTAL
IIB Finance Ireland	1,223			
KBC Dublin Capital Plc	30			
KBC Private Equity	34,876			
African Export-Import Bank			408	
Mode Natie			81	
Mts Belgium			5	
Total	36,129		493	36,621

B. Analysis of Assets sub-heading VII D

1. Subordinated loans and advances to:

	Credit institutions		Other enterprises	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
010 . Affiliated enterprises	831,110	398,117	383,217	275,569
020 . Participating interests in other enterprises linked by participating interests	75,000	165,000		
030 2. Amount of noted shares represented by subordinated loans and advances				

3. Detailed statement of subordinated loans and advances

	affiliated enterprises	other enterprises linked by participating interests
Codes	10	15
100 NET CARRYING VALUE AS AT THE END OF THE PREVIOUS FINANCIAL YEAR	673,686	165,000
110 Movements during the financial year . Additions	534,786	(90,000)
120 . Repayments (-)		
130 . Recorded write downs (-)		
140 . Written back write downs		
150 . Exchange rate difference (+/-)	5,855	
160 . Other (+/-)		
199 NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR	1,214,327	75,000
200 CUMULATED WRITE DOWNS AS AT THE END OF THE FINANCIAL YEAR		

C. Declaration concerning the consolidated annual accounts

A. Information that must be supplied by all credit institutions:

Pursuant to the provisions of the Royal Decree of 23 September 1992 concerning the consolidated annual accounts of credit institutions, the credit institution draws up annual accounts and a consolidated annual report: YES / ~~NO~~*

B. Information that need only be supplied by the credit institution if it is a subsidiary or a joint subsidiary

. Name, complete address of the registered office and, if the company concerned is incorporated under Belgian law, the VAT number or the national identification number of the parent company(companies), and whether the parent company(companies) draws(draw) up and publishes(publish) consolidated annual accounts in which the annual accounts of the company are included via consolidation*:

- KBC Group NV, Havenlaan 2, 1080 Brussels, BE 403.227.515

. If the parent company(companies) is(are) incorporated under foreign law, where the above-mentioned annual accounts can be obtained*:

* If the annual accounts of the institution are consolidated at various levels, this information must be provided for the largest grouping and and for the smallest grouping of companies to which the institution belongs in its capacity as a subsidiary and for which consolidated annual accounts are drawn up and published.

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via subsidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
A. Affiliated entreprices :								
AKB Absolut Bank Moskou RU -	Ordinary	127,755,720	95.00	0.00				
Antwerpse Diamantbank NV Antwerpen BE,0404.465.551	Ordinary	7,686,400	100.00	0.00 0.00				
CBC Banque SA Brussels BE,0403.211.380	Ordinary	1,838,956	100.00	0.00				
CENTEA NV Antwerpen BE,0404.477.528	Ordinary	184,561	99.56	0.00				
Ceskoslovenska Obchodni Banka a.s. (CSOB) Prague CZ,-	Ordinary	5,855,000	100.00	0.00				
Covent Garden Real Estate NV Zaventem BE,0872.941.897	Ordinary	2,500	50.00	0.00				
Economic and Investment Bank AD Sofia, BG -	Ordinary	5,269,772	75.58	0.00				
Fidabel NV Brussels BE,0417.309.044	Ordinary	1	0.80	0.00	31-dec-06	EUR	143	1
Fin-Force NV Brussels BE,0472.725.639	Ordinary	3,033	90.00	0.00				
IIB Bank Public Limited Company Dublin IE,-	Ordinary	372,038,509	100.00	0.00				
IIB Finance ireland Dublin IE,-	Ordinary Preferent AUD Preferent EUR Preferent GBP Preferent USD	2,166,999 700,000 514,000,000 104,000,000 116,000,000	99.99 100.00 100.00 100.00 100.00	0.00 0.00 0.00 0.00 0.00				
IMMO PARIJSSTRAAT NV Leuven BE,0439.655.765	Ordinary	54,380	99.99	0.01	31-dec-06	EUR	14,508	822
KBC Commercial Finance NV Brussels BE,0403.278.488	Ordinary	120,000	100.00	0.00				
KB Consult NV Brussels BE,0437.623.220	Ordinary	67,973	99.62	0.00	31-dec-06	EUR	128	-16
KBC Alternative Investment Management Belgium NV Brussels BE, 0883.054.940	Ordinary	4,699,530	99.99	0.00				
KBC Asset Management NV Brussels BE,0469.444.267	Cat. A shares	2,580,644	44.75	7.11				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Bank Deutschland AG Bremen DE,-	Ordinary Genusrechte	565,915 97,791,500	99.76 100.00	0.00 0.00				
KBC Bank Funding LLC II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Nederland NV Rotterdam NL,-	Ordinary	115,360	100.00	0.00				
KBC Bank (Singapore) Ltd. Singapore SG,-	Ordinary SGD Ordinary USD	10,000,000 35,000,000	100.00 100.00	0.00 0.00				
KBC Clearing NV Amsterdam NL,-	Ordinary	30,491	100.00	0.00				
KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	134,001	99.95	0.00				
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4,999,999	99.99	0.00				
KBC Dublin Capital Plc Dublin IE,-	Ordinary	40,000	100.00	0.00				
KBC Financial Holding Inc. Wilmington US,-	Ordinary	100	100.00	0.00				
KBC Financial Products UK Limited London GB,-	Ordinary	350,100,000	100.00	0.00				
KBC Groep NV Brussels BE,0403.227.515	Ordinary	3,917,845	1.08	0.00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10,585	100.00	0.00				
KBC International Portfolio SA Luxembourg LU,-	Ordinary	16,990	86.49	13.51				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Investments Hong Kong Limited Hong Kong HK, -	Ordinary	30,000,000	100.00	0.00				
KBC Investments Limited London GB,-	Ordinary	170,000,000	100.00	0.00				
KBC Lease Holding NV Leuven BE,0403.272.253	Ordinary	167,595	99.99	0.01				
KBC Lease (UK) Limited Guildford GB,	Ord. Shares of 1 GBP	7,327,865	34.00	66.00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1,000	100.00	0.00	31-dec-06	USD	25	0
KBC Peel Hunt Limited London GB,-	Ordinary	26,303,595	51.27	48.73				
KBC Pinto Systems NV Brussels BE,0473.404.540	Ordinary	2,793	49.42	10.60				
KBC Private Equity NV Brussels BE,0403.226.228	Ordinary Ordinary - 25% fully paid-up	445,416 73,502	100.00 100.00	0.00 0.00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99,947	99.95	0.05				
KBC Real Estate NV Brussels BE, 0404.040.632	Ordinary	467,121	73.18	0.00				
KBC Securities NV Brussels BE,0437.060.521	Ordinary	1,898,517	99.95	0.05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500,000	100.00	0.00	31-dec-06	AUD	264	79
KBC Vastgoedportefeuille België NV Brussels BE, 0438.007.854	Ordinary	3,000	5.19	94.81				
KBC Verzekeringen NV Leuven BE,0403.552.563	Ordinary	1	0.00	0.00	31-dec-06	EUR	1,610,466	436,149
Kereskedelmi és Hitelbank Rt. Budapest HU,-	Reg. Sh. HUF 2000	66,307,204,412	100.00	0.00				
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217,327,103	80.00	0.00				
Ligeva NV Mortsel BE,0437.002.519	Ordinary	1	0.02	99.98				
Luxembourg Offices Securitisations SA Luxemburg LU,-	Ordinary	99	99.00	1.00	31-dec-05	EUR	19	-12

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Mezzafinance NV Brussels BE,0453.042.260	Ordinary	1	0.02	99.98				
Omnia CVBA Leuven BE,0413.646.305	Ordinary	1	0.01	0.00	31-dec-06	EUR	784	280
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	2,250	50.00	0.00				
Valuesource NV Brussels BE,0472.685.453	Ordinary	1	0.01	0.00	31-dec-06	EUR	407	-12
Wetenschap Real Estate NV Zaventem BE,0871.247.565	Ordinary	3,000	50.00	50.00	31-dec-06	EUR	603	-1
B. Enterprises linked by participating interests >20% and <= 50%								
Banking Funding Company NV Brussels BE, 0884.525.182	Ordinary	12,464	20.27	0.00	first financial year ends at 31/12/2007			
BCC Corporate NV Brussels BE, 0883.523.807	Ordinary	5,747	23.95	0.00	first financial year ends at 31/12/2007			
Bedrijvencentrum Rupelstreek NV Aartselaar BE,0427.329.936	Ordinary	5,000	33.33	0.00	31-dec-06	EUR	585	63
Brand and Licence Company NV Brussels BE, 0884.499.250	Ordinary	123	20.00	0.00	first financial year ends at 31/12/2007			
Isabel NV Brussels BE,0455.530.509	Ordinary	253,322	25.33	0.00				
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2,722,634	34.00	0.00				
C. Enterprises linked by participating interests >10% and <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE,0428.014.676	Ordinary	40	9.52	0.00	31-dec-06	EUR	1,996	34
Bedrijvencentrum Regio Roeselare NV Roeselare BE,0428.378.724	Ordinary	500	18.52	0.00	31-dec-06	EUR	528	21
Bedrijvencentrum Vilvoorde NV Vilvoorde BE,0434.222.577	Ordinary	338	9.31	0.00	31-dec-06	EUR	1,046	1
Bedrijvencentrum Westhoek NV Ieper BE,0430.383.258	Ordinary	200	11.85	0.00	31-dec-06	EUR	487	-8
Bedrijvencentrum Zaventem NV Zaventem BE,0426.496.726	Ordinary	350	11.64	0.00	31-dec-06	EUR	333	-102

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
BEM NV Brussels BE, 0461.612.904	Ordinary	1,500	6.47	0.00	31-dec-06	EUR	4,916	10
BH-Capital a.s. Prostejov CZ,-	Ordinary	717,300	14.06	0.00	31-dec-06	CZK	496,210	13,069
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16.34	0.00	31-dec-06	EUR	78	1
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10.84	0.00	31-dec-06	EUR	2,291	20
Europay Belgium CV Brussels BE,0434.197.536	Ordinary	4,857	14.04	1.99	31-dec-06	EUR	1,175	664
Orbay NV Utrecht, NL,-	Ordinary	735,000	13.36	0.00	31-dec-06	EUR	8,030	2,545
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347,886	9.75	2.24	31-mrt-07	EUR	145,051	22,851
Visa Belgium CVBA Brussels BE,0435.551.972	Ordinary	22	12.29	2.24	31-dec-06	EUR	265	29

VI §2 LIST OF ENTERPRISES IN RESPECT OF WHICH THE CREDIT INSTITUTION IS FULLY LIABLE IN ITS CAPACITY AS A PARTNER OR MEMBER WITH UNLIMITED LIABILITY

Codes	Name, registered office, VAT number		Possible codes (*)
	05		10
	IIB Finance Unltd., Sandwith Street, Dublin 2		C
	KBC Clearing, Oudezijds Voorburgwal 302, NL-1012 GL Amsterdam		C
	KBC Asset Management, Havenlaan 2,B-1080 Brussel ,	0469.444.267	C
	KBC Asset Management International Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Asset Management Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Financial Services (Ireland) Ltd, KBC House, 4 George's Dock IFSC, Dublin 1		C
	KBC Fund Managers Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Securities, Havenlaan 12, B-1080 Brussel,	0437.060.521	C
	Antwerpse Diamantbank NV, Pelikaanstraat 54, 2018 Antwerpen	0404.465.551	C

(*) The annual accounts of the enterprise:

A. Will be published through a deposition in the National Bank of Belgium
B. Will be published effectively in another member state of the EC pursuant to art.3 of the directive 68/151/EEG;
C. Will be fully or proportionally consolidated in the consolidated annual statements of the enterprise which is prepared, audited and published pursuant to the Royal Decree of 29 September 1992 on the consolidated annual account of the credit institutions.

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(Assets heading VIII.)

A. Detailed statement of formation expenses

(in thousands of EUR)

	Codes	Period 05
Net carrying value as at the end of the previous financial year	010	
Movements during the financial year :		
. New costs	020	
. Whrite-downs (+/-)	030	
. Other changes (+/-)	040	
Net carrying value as at the end of the financial year :	099	
- costs incurred at establishment or capital increase, costs of issuing loans and other formation expenses	110	
- restructuring costs	120	

B. Intangible fixed assets

	Codes	Goodwill 05	Other intangible fixed assets 10	Of which provisions as compensation for bringing in transactions art 27 bis * 15
a) ACQUISITION VALUE				
As at the end of the previous financial year	210	551	912	
Movements during the financial year				
. additions, including own production	220		188	
. Sales and disposals (-)	230			
. transfers from one heading to another (+/-)	240	(46)	(77)	
As at the end of the financial year	299	505	1,023	
b) DEPRECIATION AND WRITE-DOWNS				
As at the end of the previous financial year	310	551	799	
Movements during the financial year				
. recorded	320		55	
. written back as being redundant (-)	330			
. acquired from third parties	340			
. written off (-)	350	(46)	(72)	
. transfers from one heading to another (+/-)	360			
As at the end of the financial year	399	505	782	
c) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) - b))	499	0	241	

* If there is a substantial amount under this heading

VIII. STATEMENT OF TANGIBLE FIXED ASSETS

(Assets heading IX) (in thousands of euros)

	Codes	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
		05	10	15	20	25	30
a) ACQUISITION VALUE							
As at the end of the previous financial year	010	1,070,306	30,351	127,290	9,932	212,651	
Movements during the financial year							
- acquisitions, including the resulting fixed assets	020	39,667	792	6,593	1,107	37,521	
- transfers and asset retirements	030	(24,159)	(14,746)	(43,983)		(2,556)	
- transfers from one heading to another	040		244	(244)			
As at the end of the financial year	099	1,085,814	16,641	89,656	11,039	247,616	
b) REVALUATION SURPLUSES							
As at the end of the previous financial year	110	73,580					
Movements during the financial year							
. recorded	120						
. acquired from third parties	130						
. written off (-)	140	(7,268)					
. transfers from one heading to another (+/-)	150						
As at the end of the financial year	199	66,312					
c) DEPRECIATION AND WRITE-DOWNS							
As at the end of the previous financial year	210	566,643	27,324	95,269	370	83,788	
Movements during the financial year							
. recorded	220	33,904	1,750	6,142	425	9,787	
. written off as being redundant	230	(68)					
. acquired from third parties	240	3,572					
. written off (-)	250	(20,553)	(14,725)	(44,109)		(2,156)	
. transfers from one heading to another (+/-)	260						
As at the end of the finacial year	299	583,498	14,349	57,302	795	91,419	
d) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b) - c))	399	568,628	2,292	32,354	10,244	156,197	
of which . land and buildings	410				10,244		
. plant, machinery and equipment	420						
. furniture and vehicles	430						

IX. OTHER ASSETS
(ASSETS HEADING XI)

Breakdown when there occur an important amount under this item

	05
Codes	period
010	
020	
030	
040	
050	
060	
070	

X. DEFERRED CHARGES AND ACCRUED ASSETS
(ASSETS HEADING XII)

	Codes	05
		period
1. Deferred charges	110	10,205
2. Accrued income	120	15,363,352

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS

(Liabilities heading I)

(in thousands of EUR)

A. For the heading as a whole :

	Period	Preceding period
Codes	05	10
- amounts owed to affiliated enterprises	010	6,527,930	6,043,230
- amounts owed to other enterprises linked by participating interests	020	343	20,714

B. Analysis of amounts owed, other than those repayable on demand, according to remaining maturity (Liabilities sub-headings I.B. and C.)

	Period
Codes	05
. Up to three months	110	45,315,111
. More than three months and up to one year	120	7,595,075
. More than one year and up to five years	130	13,301
. More than five years	140	50,450
. Undated	150	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS

(Liabilities heading II)

(in thousands of EUR)

1. Amounts owed to:

	Period	Preceding period
Codes	05	10
- affiliated enterprises	210	29,866,020	23,483,307
- other enterprises linked by participating interests	220	4,861	1,723

2. Geographical analysis of amounts owed :

	period
Codes	05
- in respect of Belgium	310	55,824,219
- in respect of other countries	320	54,346,489

3. Analysis according to remaining maturity :

	period
Codes	05
. Repayable on demand	410	25,699,274
. Up to three months	420	36,551,262
. More than three months and up to one year	430	9,486,223
. More than one year and up to five years	440	12,694,564
. More than five years	450	5,174,855
. Undated	460	20,564,530

XIII. STATEMENT OF DEBTS REPRESENTED BY SECURITIES

(Liabilities heading III.)

(in thousands of EUR)

1. Securities which, to the knowledge of the credit institution, are debts

	Period	Preceding period
Codes	05	010
- to affiliated enterprises	010 26,648	36,027
- to enterprises linked by participating interests	020 880	

2. Analysis according to remaining maturity

	Period
Codes	05
. up to three months	110 7,057,875
. more than three months and up to one year	120 477,874
. more than one year and up to five years	130 405,766
. more than five years	140 531,544
. undated	150

XIV. STATEMENT OF OTHER LIABILITIES

(Liabilities heading IV)

(in thousands of EUR)

	Period
Codes	05
1. Expired debts in relation to taxes, payments and social charges against:	
a) Tax Department	210
b) National Office of Social Security	220
2. Taxes :	
a) taxes payable	230 76,580
b) estimated tax liabilities	240 184,478

	Period
Codes	05
3. Other liabilities Breakdown when there occur an important amount under this item	
- holiday money, remuneration and other staff charges payable	310 231,488
- dividends payable	320 875,810
- other	330 1,041,578
	340

XV. ACCRUED CHARGES AND DEFERRED INCOME

(in thousands of EUR)

(Liabilities V)

	Codes	Period 05
1. Accrued charges	010	16,800,868
2. Deferred income	020	74,276

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of EUR)

(Liabilities sub-heading VI. A. 3.)

Breakdown when there occur an important amount under this item	Codes	Boekjaar 05
. Guarantee credits	110	55,877
. Litigation	120	87,970
. Provision VAT-litigation	130	16,744
. Provision disablement benefit	140	14,076
. Other	150	6,445

XVII. STATEMENT OF SUBORDINATED LIABILITIES

(in thousands of EUR)

(LIABILITIES heading VIII)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- debts to affiliated enterprises	210	3,299,768	3,420,568
- debts to other enterprises linked by participating interests	220		

B.

	Codes	Period 05
- Costs attendants on subordinated liabilities	310	392,120

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0001	JPY	30,315	22/04/1994-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from the 10th year
0002	GBP	706,109	19/12/2003-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank in case of Supervisory Event
0003	EUR	185,920	30/11/1998-30/11/2008 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Group at the latest 30/11/2008
0004	EUR	250,000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Bank NV
0005	EUR	2,479	10/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0006	EUR	372	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0007	EUR	16,113	01/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0008	EUR	10,833	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0009	EUR	33,533	06/11/1998-06/11/2008 Issued by KBC Bank	a) Fiscal requalification
0010	EUR	3,022,372	Subordinated certificate On-tap Issued by KBC Bank	a) Unconditional
0011	USD	208,740	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option issued from 25/04/1989 onwards
0012	EUR	300,000	11/05/1999-perpetual Deposits originated by KBC International Finance	a) Fiscal requalification Repayment possible from the 10th year
0013	EUR	6,000	20/12/1999-20/12/2009 Deposits originated by KBC International Finance	a) Fiscal requalification
0014	EUR	886,617	Continuous issues Deposits originated by KBC IFIMA	a) Fiscal requalification
0015	EUR	300,000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0016	EUR	48,957	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0017	USD	8,685	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0018	CZK	93,885	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0019	SKK	89,331	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0020	SKK	43,177	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA	a) Fiscal requalification
0021	EUR	279,512	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0022	EUR	299,514	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0023	USD	406,834	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0024	EUR	76,095	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0025	EUR	25,000	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0026	USD	101,895	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification
0027	EUR	92,250	30/06/2005-30/06/2017 Deposits originated by KBC IFIMA	a) Fiscal requalification
0028	EUR	5,000	30/06/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0029	EUR	5,815	15/07/2005-15/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0030	EUR	22,105	12/08/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

A. SHARE CAPITAL

		amounts	number of shares
	Codes	05	10
1. Issued capital (liabilities sub-heading IX.A.)			
- As at the end of the previous financial year	010	3,763,334	xxxxxxxxxxxxxxxxxxxx
- Movements during the financial year	020	266,776	
	030		
	040		
	050		
	060		
- As at the end of the financial year	099	4,030,110	xxxxxxxxxxxxxxxxxxxx
2. Structure of capital			
2.1. Types of share			
- ordinaries	110	4,030,110	412,331,794
	120		
	130		
	140		
	150		
2.2. Registered or bearer shares			
* Registered			
KBC Bank and Insurance Holding NV			412,331,793
KBC Insurance NV			1
TOTAL REGISTERED	160	xxxxxxxxxxxxxxxxxx	412,331,794
* Bearer	170	xxxxxxxxxxxxxxxxxx	

B. UNPAID CAPITAL

		unclaimed amounts	claimed, unpaid amounts
	Codes	05	10
Shareholders who still have to pay	210		
	220		
TOTAL	299		

		total amount of the capital in possession	corresponding number of shares
	Codes	05	10
C. OWN SHARES held by:			
- the credit institution	310		
- the credit institution 's subsidiaries	320		
D. Commitments to issue shares			
1. In consequence of the exercise of conversion rights:			
. Amount of current convertible loans	410	185,920	
. Amount of capital to be issued	420	185,920	
. Maximum number of shares for issue	430		4,901,015
2. In consequence of the exercise of subscription rights			
. Number of outstanding subscription rights	440		
. Amount of capital to be issued	450		
. Maximum number of shares for issue	460		
E. AUTHORIZED CAPITAL UNISSUED	510	2,000,000	

		number of shares	voting right
F. SHARES OUT OF THE CAPITAL of whom:	Codes	05	10
- shares held by the credit institution itself	610		
- sharers held by the credit institutions' daughters	620		

XIX. ANALYSIS OF THE BALANCE ACCORDING TO EUROS AND FOREIGN CURRENCY

(in thousands of EUR)

		In EUR	In foreign currency (Euro equivalent)
	Codes	05	10
TOTAL ASSETS	010	162,204,888	57,367,029
TOTAL LIABILITIES	020	158,823,968	60,747,949

XX. FIDUCIARY TRANSACTIONS IN ACCORDANCE WITH ARTICLE 27TER §1, PARAGRAPH 3

Assets and liabilities headings involved

	Period
Codes	05
110	
120	
130	
140	
150	
160	
170	
180	
190	
200	
210	
220	
230	

XXI. STATEMENT OF GUARANTEED DEBTS AND COMMITMENTS

(in thousands of EUR)

(1) Amount of subscription or carrying value of the mortgaged buildings, when these are lower
(2) Amount of subscription
(3) Book value of the premised assets
(4) Amount of the concerned assets

Collateral security constituted or irrevocably committed by the instituion on its own assets :

	Mortgages (1)	Pledges on the Trade Fund (2)	Pledges on other assets (3)	Securities on future assets (4)
Codes	05	10	15	20
a) as guarantee for debts and commitments of the credit institution				
1. Liabilities headings				
Mobilisations				
Fixed pledge in respect of European Investment Bank credit facility				
Asset pledge requirement KBC New York				
Pledge Federal Reserve Bank of New York				
Other				
2. Off-balance-sheet headings				
Margins in respect of options and futures				
010			27,445,387	
020			624,911	
030			53,659	
040			3,215,867	
050			2,056,167	
110			2,833,844	
120				
130				
140				
150				
b) as guarantee for debts and commitments of third parties				
1. Liabilities headings				
Other				
210			4	
220				
230				
240				
250				
2. Off-balance-sheet headings				
310				
320				
330				
340				
350				

XXII. STATEMENT OF CONTINGENT LIABILITIES AND OF COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

(Off-balance-sheet headings I. and II.)

(in thousands of EUR)

	Codes	Period 05	Preceding Period 010
. Total of contingent liabilities for affiliated companies	010	27,567,959	24,295,786
. Total of contingent liabilities for companies linked by participating interests	020	92,634	78,312
. Total of commitments in respect of associated companies	030	315	47,455
. Total of commitments in respect of companies linked by participating interests	040		

XXIII. DETAILS CONCERNING THE OPERATING RESULTS

(Profit and loss account headings I. to XV.)

	Codes	Period 05	Preceding Period 10
A.1. Employees in the personnel register			
a) Number of employees at the end of the period	100	11,905	11,942
b) Average number of employees calculated in full-time equivalents	101	10,570	10,919
c) Number of hours worked	102	14,732,074	14,520,316
A.1.Bis. Temporary personnel and persons placed at the disposal of the enterprise			
a) Number of employees registered at the end of the period	110		
b) Average number of employees calculated in full-time equivalents	111	8	5
c) Number of hours worked	112	16,206	9,003
d) Charges to the enterprise	113	554	300
2. Staff charges			
a) Remuneration and direct social benefits	210	579,087	584,553
b) Employer social security contributions	220	154,783	155,328
c) Employer premiums for extra-legal insurance	230	54,204	41,826
d) Other	240	31,420	26,940
e) Pensions	250	2,591	755
3. Provisions for pensions			
a) additions (+)	310	8,079	9,184
b) expenditure and write-backs (-)	320	(26,285)	(32,102)
B. 1. Other operating income			
Breakdown of heading XIV of the profit and loss account if there is a substantial amount under this heading	410		
	420		
	430		
2. Other operating charges (Profit and loss account heading XV.)			
. Taxation	510	83,766	77,782
. Other operating charges	520	1,984	2,377
Breakdown of heading XV if there is a substantial amount under this heading	610		
	620		
	630		
C. Operating results in respect of associated companies			
. Income	710	3,818,325	2,395,643
. Charges	720	5,725,619	3,040,822

XXIII. DETAILS CONCERNING THE OPERATING RESULTS (continued)

D. Analysis of operating income according to source

(in thousands of EUR)

		Period		Previous period	
		Belgian branches	Foreign branches	Belgian branches	Foreign branches
	Codes	05	10	15	20
I. Interest receivable and similar income	010	6,155,296	2,598,654	4,917,414	1,920,795
III. Income from variable-yield securities					
. shares and other variable-yield securities	110	23,458	16	18,542	13
. participating interests in associated companies	120	1,037,471		757,268	
. participating interests in companies linked by participating interests	130	15,901		11,141	
. Other shares constituting financial fixed assets	140	8,532		15,274	
IV. Commission receivable	210	848,770	91,210	793,853	71,530
VI. Profit on financial transactions					
. on the trading of securities and other financial instruments	310	156,288	4,985	71,310	33,282
. on the disposal of investment securities	320	77,629	(9,093)	64,755	5,908
XIV. Other operating income	410	155,008	7,524	129,160	22,060

Remarks :

1) The attachment to the standard form must include a an analysis by category of activities and by geographical market if there are substantial differences between these markets as regards the organization of sales of products and services that are part of the credit institution's ordinary activities

2) Headings III.B. and C. of the profit and loss account must include in the attachment to the standard form a geographical distinction by refering to the place where the head office of the enterprise is situated

Ventilation géographique des postes III.B., C. en D. du compte de résultats

III. Revenus de titres à revenu variable

	B. Participations dans des enterprises liées	C. Participations dans d'autres entreprises avec lesquelles il existe un lien de participation	D. Autres immobilisations financières	TOTAL
Belgique	368,724	5,166	3,146	377,036
Allemagne	3,000			3,000
Egypt			11	11
Grande-Bretagne	48,972			48,972
Hongrie	43,229			43,229
Hong-Kong	8,998			8,998
Irelande	151,884		4,117	156,001
Luxembourg	2,735			2,735
Pays Bas	19,088		81	19,169
Panama			19	19
Pologne	21,342			21,342
Portugal			1,157	1,157
Singapore	6,175	10,735		16,910
Tchèque	363,324			363,324
Total	1,037,471	15,901	8,531	1,061,903

XXIV. STATEMENT OF FORWARD OFF-BALANCE-SHEET TRANSACTIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS NOT INVOLVING COMMITMENTS CARRYING A POTENTIAL CREDIT RISK IN THE SENSE OF OFF-BALANCE-SHEET HEADING II.

(in thousands of EUR)

TYPE OF TRANSACTION		AMOUNT AT CLOSURE DATE OF THE ACCOUNTS	OF WHICH TRANSACTIONS NOT INTENDED AS HEDGES
	Codes	05	010
1. On securities			
- Forward purchases and sales of securities	010		
2. On foreign currency (a)			
- forward exchange operations	110	103,643,021	103,631,224
- currency and interest rate swaps	120	70,789,710	70,714,513
- currency futures	130		
- currency options	140	26,400,234	26,400,234
- foreign exchange contracts	150		
3. On other financial instruments			
1. Forward interest-rate operations (b)			
- interest rate swap agreements	210	565,432,129	563,681,991
- interest rate futures	220	18,379,619	18,379,619
- forward rate agreements	230	3,835,225	3,835,225
- interest rate options	240	104,331,727	104,331,727
2. Other forward purchases or sales (c)			
- other option transactions	310	10,997,888	10,997,888
- other future transactions	320		
- other forward purchases and sales	330	474,147	

CALCULATION IN THE NOTES OF THE ACCOUNTS OF THE EFFECT ON RESULTS OF THE DEROGATION FROM THE VALUATION RULE OF ART.36BIS,§2,WITH REGARD TO FORWARD INTEREST-RATE OPERATIONS

Categories of forward interest-rate operations		Amounts as at year end of the accounts	Difference between market value and carrying value
	Codes	05	010
a) within the framework of cash management	410	25,785,656	34,672
b) within the framework of ALM	420	10,553,932	256,081

a) Amounts to be deliverd
b) Nominal/Notional reference amount
c) Purchase/Sale price agreed between the parties
d) + positive difference between market value and carrying value
- negative difference between market value and carrying value

XXV. EXTRAORDINARY RESULTS

	Codes	Period 05
A. . Gains on the transfer of fixed assets to associated companies	010	
. Losses on the transfer of fixed assets to associated companies	020	

B.

	Codes	Period 05
Other extraordinary income (subheading XVII.E. of the profit and loss account): Breakdown, if there is a substantial amount under this heading		
	110	
	120	
	130	
	140	
	150	
Other extraordinary charges (subheading XVIII.E. of the profit and loss account) : Breakdown, if there is a substantial amount under this heading		
	210	
	220	
	230	
	240	
	250	

XXVI. INCOME TAXES

	Codes	Period 05
A. Breakdown of Profit and loss account sub-heading XX.A.		
1. Income taxes for the financial year		
a. Taxes and advance levies due or paid	310	156,516
b. Capitalized excess tax and advance levies paid	320	
c. Estimated additional charges for income taxes (recorded under Liabilities heading IV.)	330	34,669
2. Income taxes for previous financial years		
a. Additional taxes due or paid	410	12,236
b. Estimated additional taxes (recorded under Liabilities heading IV.) or additional tax for which a provision has been formed (recorded under Liabilities sub-heading VI.A.2.)	420	1,729

B. MAIN DIFFERENCES BETWEEN PROFIT BEFORE TAX AS SHOWN IN THE ANNUAL ACCOUNTS AND ESTIMATED TAXABLE PROFIT

With separate mention of the differences stemming from the lapse of time between the moment the accounting profit is determined and the moment the taxable profit is determined (insofar as the profit for the period was materially affected by taxes)

The difference between profit before tax and estimated taxable profit stems from	Codes	Period 05
- movements in taxable reserves and provisions	510	1,941
- the specific tax treatment accorded to gains and losses on shares	520	(263,782)
- the application of the FII (Franked Investment Income) system to dividends received	530	(1,007,466)
- disallowed expenditure (other than depreciation charges, impairment losses on shares and company tax)	540	26,056
	550	

XXVI. INCOME TAXES (continued)

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAX FOR THE FINANCIAL YEAR

	Period
Codes	05
010	97,087
020	(40,913)
030	

D. SOURCES OF DEFERRED TAX BALANCES
(when this information is important to get an overall view of the financial position of the credit institution)

	Period
Codes	05
1. Deferred tax debit	
. Taxed provisions and write-downs	110 77,324
. Exaggerated depreciations	120 924
	130
	140
	150
2. Deferred tax credit	
. Revaluation resources to be taxed	210 9,201
	220
	230
	240
	250

XXVII. OTHER TAXES AND TAXATION FOR ACCOUNT OF THIRD PARTIES

	Period	Previous period
Codes	05	10
A. Value-added tax, turnover tax and special taxes charged during the financial year		
1. To the enterprise (deductible)	310 27,837	21,543
2. By the enterprise	320 34,977	29,814
B. Amounts withheld for account of third parties for:		
1. Payroll withholding taxes	410 165,885	167,740
2. Withholding taxes on investment income	420 167,342	140,241

XXVIII. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET THAT ARE NOT REFERRED TO IN THE SECTION ABOVE OR UNDER OFF-BALANCE-SHEET HEADINGS

	Codes	Period 05
A. Material commitments to purchase fixed assets	010	
	020	
	030	
	040	
Material commitments to sell fixed assets	110	
	120	
	130	
	140	
B. Material disputes (*) and other important commitments (**) :	210	
	220	
	230	
	240	
C. In the event, a brief description of the supplementary retirement or survivor's pensions for staff or senior management, with an indication of the measures designed to cover the attendant costs (***).	310	
	320	
	330	
	340	
Pensions paid for by the credit institution itself		
. Estimated amount of the commitments for the credit institution stemming from work already performed	410	
. Basic amount and how it was calculated	420	

(*)
The most significant, pending legal disputes are commented on below. Claims filed against KBC Bank and its companies are treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable'))

Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has provided below a summary of recent developments relating to the most important cases in this category.

These cases are as follows :
the information provided is limited in order not to prejudice the position of the group in ongoing litigation

Possible outflow
In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.

Remotely probable outflow
On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial
All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings before the Indictment Division have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB, and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the sum of 62.3 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

(**)
The credit institution irrevocably guarantees all the commitments of the Irish companies named below as at 31 December 2007; these companies may accordingly be exempted from certain publication requirements under section 17 of the Irish Companies Amendment Act

IIB Bank
KBC Asset Management International Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited

The credit institution irrevocably guarantees all the commitments of the companies named below as at 31 December 2007; these companies are be exempted from publication on consolidated basis.

KBC Asset Management NV
KBC Clearing
KBC Securities NV
Antwerpse Diamantbank NV

(***)
A system of extra pension provision exists for all members of staff,
including old-age pensions, death benefits, pensions for the surviving partner and orphan's pensions
The amount of these provisions depends on the final average salary, the number of years in service
and the age of the person when he/she takes retirement, this within the scope of a 'defined benefits' scheme

These pension provisions are financed entirely by the employer by means of yearly sums charged against profit. These sums, calculated on actuarial basis according to the the 'aggregate cost' method, are transferred to KBC's Pensioenfonds VZW, which is responsible for the supervision of the provisions that are set aside, the payment of the extra pensions and the relevant administration

The directors on the Executive Committee are also entitled to extra pension provisions, based on similar principles. A group assurance policy has been taken out for this purpose.

There is also a supplementary pension plan (capitalization system) based exclusively on personal contributions by staff made through the deduction of sums from pay. The credit institution guarantees the capitalization of the contributions made at an interest rate of 4.75% a year for the period through 30 June 1999 and at an interest rate of 3.75% from 1 july 1999,which is effective on disbursement.
The management of the provisions set aside for this purpose, the payment of pensions and the relevant administration are entrusted to the VZW Aanvullend pensioenfonds KBC and Aanvullend Pensioenfonds Directie KBC, respectively.

XXIX. FINANCIAL RELATIONSHIPS

A. WITH DIRECTORS AND PARTNERS
B. WITH NATURAL OR LEGAL PERSONS WHO CONTROL THE COMPANY DIRECTLY OR INDIRECTLY, AND ARE NOT ASSOCIATED COMPANIES
C. WITH OTHER COMPANIES THAT DIRECTLY OR INDIRECTLY CONTROL THE PERSONS REFERRED TO UNDER B.

	Codes	Period 05
A. 1. Amounts receivable from the above-mentioned persons	510	3,004
2. Liabilities incurred in their favour	520	
3. Other significant commitments entered into in their favour	530	
Most important conditions in relation to A1, A2 en A3.		
B. 1.The amount of direct and indirect remuneration and of pensions charged to the profit and loss account, on the understanding that this does not relate exclusively or primarily to the situation of a single identifiable person:		
- to the directors and managers	610	9,826
- to former directors and managers	620	60
D. Note regarding assignments carried out by the auditor and work performed by companies with which the auditor has entered into professional co-operation arrangements. Pursuant to Article 134 of the Companies Code, shown below is: The total of the fees paid by KBC Bank NV to Ernst&Young and to the companies with which it has entered into a professional co-operation arrangement :		
- Fees paid for the statutory audit assignment	810	1,839
- Fees paid for other certifications	820	149
- Fees paid for tax advice:	830	59
- Fees paid for other non-audit services	840	40

SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise	310		

I. STATEMENT REGARDING THE COMPANY'S WORKFORCE

A. EMPLOYEES IN THE PERSONNEL REGISTER

	Codes	1. Full-time *period*	2. Part-time *period*	3. Total (T) or total in full-time equivalents (FTE) *period*	4. Total (T) or total in full-time equivalents (FTE) *period*
1. During the present and the preceding financial period					
Average number of employees	100	7,246	3,890	11,136 (FTE)	10,230 (FTE)
Number of actual hours worked	101	10,439,225	3,126,907	13,566,132 (T)	13,400,716 (T)
Staff charges (in thousands of EUR)	102	561,008	168,042	729,050 (T)	729,530 (T)
Benefits in addition to wages (in thousands of EUR)	103	10,884	3,260	14,144 (T)	13,709 (T)

2. As at the closing date of the financial period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees recorded in the personnel register	105	7,271	3,882	9,932.6
b. By nature of the employment contract				
Contract of unlimited duration	110	7,271	3,882	9,932.6
Contract of limited duration	111			
Contract for specific work	112			
Substitute's contract	113			
c. By sex				
Men	120	4,757	933	5,353.3
Women	121	2,514	2,949	4,579.3
d. By professional category				
Senior management	130	97	1	97.8
Employees	134	7,174	3,881	9,834.8
Workers	132			
Other	133			

B. TEMPORARY PERSONNEL AND PERSONS PLACED AT THE DISPOSAL OF THE ENTERPRISE

During the financial period	Codes	1. Temporary personnel	2.Persons placed at the disposal of the enterprise
Average number of personnel employed	150	8	
Number of hours worked	151	16,206	
Charges to the enterprise (in thousands of EUR)	152	554	

II. CHANGES IN THE WORKFORCE DURING THE FINANCIAL PERIOD

A. NEW EMPLOYEES

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of new employees entered in the personnel register during the financial period	205	513	58	557.1
b. By nature of the employment contract				
Contract of unlimited duration	210	513	58	557.1
Contract of limited duration	211			
Contract for specific work	212			
Substitute's contract	213			
c. By sex and level of education				
Men : Primary education	220			
Secondary education	221	9	1	9.8
Higher, non-university education	222	137	1	137.8
University education	223	94	1	94.8
Women Primary education	230			
Secondary education	231	12	28	32.2
Higher, non-university education	232	179	14	189.8
University education	233	82	13	92.7

B. Employees leaving the company

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees whose contract termination date as entered in the personnel register was in the financial period	305	377	294	553.8
b. By nature of the employment contract				
Contract of unlimited duration	310	377	294	553.8
Contract of limited duration	311			
Contract for specific work	312			
Substitute's contract	313			
c. By sex and level of education				
Men : Primary education	320			
Secondary education	321	69	89	115.9
Higher, non-university education	322	99	44	124.9
University education	323	91	11	97.5
Women Primary education	330			
Secondary education	331	25	89	78.6
Higher, non-university education	332	57	46	90.0
University education	333	36	15	46.9
d. By reason for contract termination				
Pension	340	54	170	141.1
Early retirement	341			
Dismissal	342	30	5	33.8
Other reason	343	293	119	378.9
Of which: number of former employees who continued rendering services to the enterprise at least on a part-time basis as self-employed persons	350			

III. STATEMENT CONCERNING THE IMPLEMENTATION OF MEASURES STIMULATING EMPLOYMENT DURING THE FINANCIAL PERIOD

MESURES STIMULATING EMPLOYMENT	Codes	Employed persons involved 1. Number	2. In full-time equivalents	3. Amount of financial profit (in thousands of EUR)
1. Mesures generating a financial profit (*)				
1.1. Recruitment benefit plan (to encourage the recruitment of job-seekers in risk categories)	414			
1.2. Conventional part-time early retirement plan	411			
1.3. Career Break	412			
1.4. Reduction in working hours (part-time career break)	413			
1.5 'Sociale Maribel' plan	415			
1.6. Structural reduction in social security contributions	416			
1.7. On-placement programmes	417			
1.8. Service jobs	418			
1.9. Job - training agreements	503			
1.10. Apprenticeship contracts	504			
1.11. First job agreements	419			
2. Other measures				
2.1.Training period for young people	502			
2.2. Succesive employment contracts of limited duration	505			
2.3. Conventional early retirement	506	17	17	
2.4. Reduction in personal social security contributions for low wage employees	507			
Number of employees involved in one or more measures stimulating employment				
- total for the financial period	550	17	17	
- total for the previous financial period	560	26	26	

IV. INFORMATION ON EMPLOYEE TRAINING DURING THE FINANCIAL PERIOD

Total of training initiatives at the employer's expense	Codes	Men	Codes	Women
1. Number of employees	5801	4,108	5811	3,524
2. Number of training hours	5802	105,787	5812	106,596
3. Charges to enterprise (in thousands of EUR)	5803	12,057	5813	9,143

V. INFORMATION ON TRAINING, GUIDANCE, OR MENTORING ACTIVITIES OF EMPLOYEES IN IMPLEMENTATION OF THE LAW OF 5 SEPTEMBER 2001 FOR THE IMPROVEMENT OF THE DEGREE OF EMPLOYMENT OF EMPLOYEES

	Codes	Men	Codes	Women
1. Number of employees who performed these activities	5804	171	5814	71
2. Number of hours spent on these activities	5805	5,593	5815	1,704
3. Number of employees who benefited from these activities	5806	4,312	5816	3,753

(*) Financial benefit to the employer regarding the iindividual entitled or substitute

Valuation Rules - KBC Bank NV

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 annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

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

Amounts receivable arising from advances and 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 recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans 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 recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised 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.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the bank's own loan receivables are booked as guarantees given or received. Transactions relating to the trading book are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

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

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

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the CBFA. 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.

Amounts provisioned for country risks are broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate.

SECURITIES

Securities are recognised 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, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*
Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost. Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

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

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

Software developed in-house is charged immediately to the profit and loss account. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Exploitatie NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

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. All tangible fixed assets are depreciated on an accruals basis during the first year of investment. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately 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 that 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.

CREDITORS

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

PROVISIONS FOR LIABILITIES & CHARGES

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

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

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

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36 bis of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

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

the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

the transaction must be recorded in the books as a hedge from its inception;
there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

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

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

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

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

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

3. Changes in valuation rules

There were no changes to the valuation rules with a material impact on the figures.

COMMENTS ON THE NON-CONSOLIDATED ANNUAL ACCOUNTS OF KBC BANK NV - 2007

PROFIT AND LOSS ACCOUNT - NV ('000 EUR)	2007	2006	change	in %
Gross income from ordinary activities	3.476.047	3.195.187	280.860	8,79%
General administrative expenses	-1.643.938	-1.550.160	-93.778	6,05%
OPERATING RESULT	**1.832.109**	**1.645.027**	**187.082**	**11,37%**
Write-downs and provisions	-2.010	14.652	-16.662	...
PROFIT FROM ORDINARY ACTIVITIES	**1.830.099**	**1.659.678**	**170.420**	**10,27%**
Extraordinary result	56.272	110.189	-53.917	-48,93%
Income taxes	-196.967	-279.098	82.131	-29,43%
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**1.689.404**	**1.490.769**	**198.635**	**13,32%**

Profit for financial year 2007 TO BE APPROPRIATED was up 199 million euros to 1 689 million euros.

Gross income came to 3 476 million euros, an 8.79% increase on 2006. Of this increase, 283 million euros were accounted for by dividend income, while the 118-million-euro drop in net interest earnings was offset by the 55-million-euro increase in income from financial transactions and the 61-million-euro rise in net commission and other operating income.

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up in 2007 by 94 million euros or 6.1%, to 1 644 million euros. The increase was accounted for mainly by other administrative expenses (73 million euros or 11.92%) and to a less extent by staff charges (13 million euros or 1.57%).

On balance, the operating result went up by 187 million euros or 11.37%. Taking into account the limited net transfer to write-downs and provisions (2 million euros) in 2007, compared with a net reversal of 15 million euros in 2006, profit from ordinary activities went up compared to last year by 170 million euros to 1 830 million euros (+10.27%).

The extraordinary result fell from 110 million euros to 56 million euros, principally as a result of provisions set aside for financial fixed assets.

Income taxes went down by 82 million euros to 197 million euros, owing to the decline in taxable profit.

GROSS INCOME FROM ORDINARY ACTIVITIES

Gross income comprises net interest income, dividends received, earnings on financial transactions, other commission and operating income (headings I through VI and XIV).

The 8.79% increase in gross income to 3 476 million euros is the result of:

- the 283-million-euro increase in income from variable-yield securities (heading III.). At most of the subsidiaries, the dividend payout ratio for 2007 was increased under KBC group's 2006-2009 share buyback programme.

- The 118-million-euro decline in net interest income (headings I. and II.), accounted for mainly by the mounting cost of funding investments in new acquisitions.
  Net interest income as a percentage of gross income from ordinary activities fell from 44.30% to 37.32%.
- Profit from financial transactions went up by 55 million euros, or 31.13%. The high level of capital gains realised on variable-yield securities resulting primarily from the sale of Intesa San Paolo shares for an amount of 207 million euros at the start of 2007 was largely offset by the 133 million euros in losses on the sale of long-term bonds (due mainly to positions being scaled down, given the anticipated trend in interest rates).
- Net commission and other operating income (headings IV, V and XIV) went up by 61 million euros or 7.65%. This increase can be put down in part to the higher commission from sales of investment funds.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up by 94 million euros or 6.05% compared with 2006.

Operating charges (headings VII. and XV.) were up 78 million euros or 11.35%, chiefly on account of higher amounts being billed via the cost-sharing structure due to a shift in activities (see personnel charges), higher automation expenses and an increase in fees (relating to acquisitions, etc.).

Depreciation charges (heading VIII.) were up 3 million euros or by 5.34%.

At KBC Bank Belgium, staff charges levelled off. This was the resultant of the decline in the number of full-time equivalents owing to personnel being shifted to KBC Group, as well as of negative factors, such as indexation (1.69%) and other pay increases. In the branches abroad, a 13-million-euro increase was recognised owing to an increase in the workforce and higher result-based bonuses.

The cost/income ratio fell from 48.52% in 2006 to 47.29% in 2007.

WRITE-DOWNS AND PROVISIONS

Total transfers to and from write-downs and provisions (headings IX through XIII, inclusive) resulted in 2007 in limited net provisioning of 2 million euros. In 2006, there had been a net reversal of 15 million euros.

Total write-downs on and provisions for credit risks (headings IX and X) went from a 3-million-euro reversal in 2006 to net provisioning of 39 million euros in 2007. This can be put down mainly to a new method for calculating general provisions (IBNR), which resulted in 61 million euros being set aside. In 2006, 4 million euros in impairment losses on securities were reversed, whereas in 2007, write-downs of 7 million euros were recognised.

In both 2007 and 2006, more was transferred from provisions and used (heading XI) than transferred to them (heading XII).

The net surplus of 44 million euros recorded in 2007 between transfers from provisions and provisions used was due mainly to the closure of the 52-million-euro provision for miscellaneous expenses and future expenditure. This was offset to some extent by provisioning for legal and tax disputes.
The 8-million-euro surplus recognised in 2006 stems from a positive balance for personnel-related provisions, which was also offset to some extent by provisioning for legal and tax disputes.

EXTRAORDINARY INCOME AND CHARGES

In 2007, extraordinary profit came to 56 million euros, 54 million euros less than in 2006, due mainly to lasting impairment losses being recognised on financial fixed assets in 2007. Gains realised on financial fixed assets ended both 2006 and 2007 at 115 million euros.

INCOME TAXES

Income taxes (heading XX) went down by 82 million euros to 197 million euros, mainly because of the lower taxable profit of KBC Bank Belgium. For an overview of taxation, please see Table XXVI in the Notes.

ASSETS / LIABILITIES

BALANCE SHEET TOTAL

At year-end 2007, total assets came to 219.6 billion euros, an increase of 36 billion euros or 19.64 % on the year-end figure for 2006. On the assets side of the balance sheet, nearly all items were up, with the exception of bonds and other fixed-income securities and shares. On the liabilities side, amounts owed to credit institutions and amounts owed to customers were the main headings that went up.

At the end of 2007, amounts receivable from abroad accounted for 59.97 % of the balance sheet total (58.35% at the end of 2006). The branches abroad held around 19.43 % of the bank's total assets, up 0.37 % year-on-year.

TRANSACTIONS WITH CREDIT INSTITUTIONS

Loans and advances to banks (asset heading III) went up by 20.3 billion euros. Approximately 44 % of this heading is accounted for by reverse repos. Time deposit accounts went up in 2007 by 8.1 billion euros, while repo transactions rose by 7.1 billion euros. Amounts owed to credit institutions (liabilities heading I) also rose by 15.6 billion euros.
Accordingly, net borrowing from credit institutions came to 13.5 billion euros at the end of the financial year, compared with 18.2 billion euros a year earlier. The net volume outstanding depends on the liquidity requirements of the bank.

LOANS AND ADVANCES TO CUSTOMERS

Asset heading IV, 'Loans and advances to customers', includes not only payment credit granted by the bank, but also securities for collection and balances on suspense accounts. Of the amount outstanding, 71.3 % is denominated in euros, while 55.20 % represents exposure to Belgian counterparties.

Payment credit went up by 16.8 billion euros to 99.6 billion euros. The increase is due to the 16.6-billion-euro increase in term loans.

In July 2007, a new securitisation operation involving home loans was carried out for an amount of 3.8 billion euros.

FIXED-INCOME SECURITIES

The total portfolio of fixed-income securities (asset headings II and V) fell by 9.5 billion euros to 33.4 billion euros. Securities issued by public authorities represented 64.98% of the portfolio and those issued by credit institutions 17.29%.

The investment portfolio decreased by 11.4 billion euros to 22.2 billion euros. The portfolio consists mainly of Belgian and EMU government issues. At year-end 2007, there was an unrealised loss on the investment portfolio of fixed-income securities of 169 million euros.
The trading book, consisting mainly of government securities and securities issued by credit institutions, grew in 2007 by 2 billion euros to 11.2 billion euros.

SHARES AND OTHER VARIABLE-YIELD SECURITIES

Asset heading VI, 'Shares and other variable-yield securities' came to 449.8 million euros, compared with 721 million euros at the close of 2006. The trading portfolio went down by 271 million euros.

FINANCIAL FIXED ASSETS

Participating interests, other shares and subordinated loans constituting financial fixed assets (heading VII) went up by 7.2 billion euros to 16.2 billion euros.
The main additional investments made were in the following associated companies:
the stake in IIB Bank Ltd. was upped by 118 million euros, and the investment in CSOB by 396 million euros.
New investments were made in KBC Credit Investments to the tune of 5 billion euros, in Absolut Bank of 698 million euros and in ElBank of 297 million euros.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

Asset heading VIII, 'Formation expenses and intangible fixed assets', is made up solely of intangible fixed assets.

TANGIBLE FIXED ASSETS

Asset heading IX went up by 19 million euros to 770 million euros. This was accounted for by the increase in real estate activities.

OTHER ASSETS

These went up by 526 million euros to 1.8 billion euros. This increase can be put down to the revaluation of trading interest rate options, which are very volatile.

ACCRUALS AND DEFERRALS

Deferred charges and accrued income are recorded under asset heading XII.
They went up by 767 million euros to 15.4 billion euros.

AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES

Customer deposits, including those represented by securities, are recognised under liabilities headings II and III. These are liabilities ensuing on the attraction of working funds from customers (this includes discounting, repurchase agreements and secured advances), as well as credit balances on suspense accounts and the short position in the trading portfolio.

Total customer deposits went up by 16.1 billion euros to 118.6 billion euros at year-end 2007. Most products contributed to this increase with the exception of customer savings certificates, which remained unchanged. Savings deposits were 2.2 billion euros lower.

OTHER LIABILITIES

Other liabilities (heading IV) include liabilities relating to options premiums paid, taxation, remuneration and social security charges. This heading also includes dividends to be paid on treasury shares and invoices yet to be paid by the bank. There was an increase of 0.2 billion euros compared with financial year 2006.
For an overview, please see Table XIV in the Notes.

ACCRUALS AND DEFERRALS

Accrued charges and deferred income are recorded under liabilities heading V.
There was an increase of 1.6 billion euros compared with financial year 2006.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges (liabilities heading VI.A) fell in 2007 by 22.3 million euros to 236.1 million euros. This decline was accounted for mainly by the provision for end-of-career schemes (18 million euros). For more information on transfers to and from provisions, please see the comments on the profit and loss account.

SUBORDINATED LIABILITIES

A breakdown by type and remaining term to maturity for liabilities heading VIII is shown in Table XVII in the Notes. Total subordinated liabilities outstanding went up by 1 billion euros to 7.6 billion euros. This figure can be broken down as follows:
- convertible bonds: 0.2 billion euros
- non-convertible bonds: 4.7 billion euros
- other term borrowings: 2.7 billion euros.

This increase stems from relatively brisk sales of subordinated certificates and time deposit accounts in the branch network. Although there is no immediate need for additional tier-2 capital, it was nevertheless decided to place subordinated securities in the market. The funding cost is comparable to that for senior bonds.

CAPITAL AND RESERVES

Capital and reserves went up in 2007 by 1 547 million euros to 9 003 million euros, following a capital increase on 28 September 2007.

OFF-BALANCE-SHEET HEADINGS

CONTINGENT LIABILITIES

Off-balance-sheet items carrying an actual credit risk went up by 7 billion euros to 40.9 billion euros.
This increase is accounted for by 'other guarantees' (4.5 billion euros) and relates primarily to guarantees the bank has extended to holders of financial instruments issued by subsidiaries (e.g., to finance companies for the issue of international bond loans). These are included under heading I.C. Guarantees given that are in the nature of direct credit substitutes (heading I.B) also went up by 2.3 billion euros year-on-year.

COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

The undrawn margin on confirmed credit lines (heading II.C.) fell by 582 million euros to 38.3 billion euros, owing to decreased utilisation of the credit lines.

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TRANSLATION

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

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

Unqualified opinion on the financial statements

We have audited the financial statements for the year ended 31 December 2007, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 219.571.917.(000) and a profit for the year of € 1.686.857.(000).

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

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

Responsibility of the statutory auditor

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

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the company and the presentation of the financial statements, taken as a whole. Finally, we have obtained from the board of directors and the company's officials the explanations and information necessary for executing our audit procedures. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2007 give a true and fair view of the company's financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional comments and information

The preparation and the assessment of the information that should be included in the directors' report and the company's compliance with the requirements of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) and its articles of association are the responsibility of the board of directors.

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

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

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.

- We do not have to report any transactions undertaken or decisions taken in violation of the company's articles of association or the Company Code. The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.

- An interim dividend was distributed during the year in relation to which we have issued the attached report in accordance with legal requirements.

Brussels, 20 March 2008

Ernst & Young Reviseurs d'Entreprises SCCRL
Statutory auditor
Represented by

Jean-Pierre Romont
Partner

Danielle Vermaelen
Partner

08JPR0066

ERNST & YOUNG

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TRANSLATION

AUDIT REPORT TO THE BOARD OF DIRECTORS OF KBC BANK NV ON THE STATEMENT OF ASSETS AND LIABILITIES PREPARED AT THE OCCASSION OF THE DISTRIBUTION OF AN INTERIM DIVIDEND

In accordance with article 618 of the Company Code and the company's bylaws, we report to you on the statement of assets and liabilities as of 30 September 2007.

Intended transaction

The Board of Directors considers distributing an interim dividend of € 1,8569 (gross) per share.

Article 38 of the coordinated bylaws provides to the Board of Directors the authority to distribute an interim dividend. More than six months have elapsed since the end of the previous financial year and the annual accounts in respect of that financial year were approved by the General Shareholders' Meeting of April 25, 2007.

Examination procedures and findings

Our examination was carried out in accordance with the recommendation of the *Institut des Reviseurs d' Entreprises / Instituut der Bedrijfsrevisoren* applicable to, amongst other, limited review engagements of a statement of assets and liabilities. Consequently, this review consisted primarily of the analysis, comparison and discussion with the management of the bank of the financial information provided to us.

The statement of assets and liabilities has been prepared in accordance with the requirements of accounting law and consequently with consistent application of the accounting policies.

We have no knowledge of any matters occurred after 30 September 2007 that would lead to any material modification to the statement of assets and liabilities.

Distributable Profit

In accordance with article 618 of the Company Code and based on our work performed, the distributable profit can be determined as follows:

	€
- Profit per 30 September 2007	1.254.049.836,18
- Profit brought forward	21.861,63
- Distributable profit	1.254.071.697,81

Taking into account the number of shares (385.054.107) and the proposed dividend distribution, the distributable profit is sufficient to allow a distribution of an interim dividend from the profit of the period for a total amount of € 715.006.971,29.

Conclusion

We conclude that we have conducted a limited review of the statement of assets and liabilities of KBC Bank N.V. as of 30 September 2007 with a balance sheet total of € 209.100.462.748,16 and a result for the period of € 1.254.049.836,18. Our review was conducted in the context of the decision of distribution of an interim dividend. Consequently, this review consisted primarily of the analysis, comparison and discussion of the financial information and was carried out in conformity with the recommendation of the *Institut des Reviseurs d' Entreprises / Instituut der Bedrijfsrevisoren* applicable to limited review engagements. Our review was consequently less extensive than a full scope audit of financial statements. Our review has not revealed any information that would lead to any material modification to the interim statement.

The profit of the period, as mentioned in the statement of assets and liabilities as per 30 September 2007, increased with the profit brought forward, is sufficient to proceed with a distribution of an interim dividend of € 1,8569 (gross) per share as intended by the Board of Directors.

Finally we mention that, in accordance with article 618 of the Company Code, this report will be attached to our auditor's report on the financial statements of the current year.

Brussels, 9 November 2007

Ernst & Young Reviseurs d'Entreprises S.C.C.R.L. (B160)
Statutory auditor
represented by

Jean-Pierre Romont
Partner
08JPR0032

Annual report KBC Bank

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Volume 2

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This volume contains the company annual accounts of KBC Bank, as filed with the National Bank of Belgium.

Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium.

RLP 0403 227 515, bank account No. 734-0051374-70.
KBC Bank NV, CBFA registration No. 26 256.

STATUTORY AUDITOR’S REPORT

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NAT.	Date of filing	No.	PP.	B.	D.	1

ANNUAL ACCOUNTS

FIRM OR NAME : KBC BANK
Legal form : NV
Address : Havenlaan
Postal code : 1080 Municipality : Brussels Nr : 2 Box :
Register of corporate bodies - Chamber of Commerce : Brussels
Internetaddress : http://www.kbc.be

DATE 21/12/2007 of filing of the deed op incorporation OR the most recent document stating the date on which the deed of incorporation and the deed amending the articles of association were published Company number 0462.920.226

ANNUAL ACCOUNT approved by the General Meeting of 23/04/2008
concerning the financial year covering the period from 01/01/2007 till 31/12/2007
Preceding period from 01/01/2006 till 31/12/2006
The amounts for the preceding period are identical to those previously published yes / ~~no~~

COMPLETE LIST with name, first names,occupation place of residence(address, number, postal code and municipality) of both the DIRECTORS OR MANAGERS of the enterprise and of the AUDITORS who audited the accounts.

CHAIRMAN OF THE BOARD OF DIRECTORS
Mr. Jan HUYGHEBAERT — Copernicusstraat 12, 1180 UKKEL

PRESIDENT OF THE EXECUTIVE COMMITTEE
Mr. André BERGEN — Coupure R 164Q, 9000 GENT

MEMBERS:
Mr. Herman AGNEESSENS — Edelweisslaan 47, 3080 TERVUREN
Mr. Franky DEPICKERE — Izegemstraat 203, 8770 INGELMUNSTER
Mr. Frans FLORQUIN — Dewittelaan 7 bus 202, 8670 KOKSIJDE
Mr. Luc PHILIPS — Platanenlaan 14, 1820 PERK
Mr. Guido SEGERS — Torenstraat 114, 3110 ROTSELAAR
Mr. Jan VANHEVEL — Max Hermanlei 8, 2930 BRASSCHAAT
Mr. Germain VANTIEGHEM — Dalemstraat 9, 3078 KORTENBERG
Mr. Marc WITTEMANS — Winkselsesteenweg 41, 3020 HERENT
Mr. Paul PEETERS — Molenstraat 2 A , 2811 MECHELEN
Mr. Lode MORLION — Weststraat 18, 8647 LO-RENINGE
Mrs. Sonja DE BECKER — Meerbeekstraat 20, 3071 ERPS-KWERPS
Mrs. Marita ORLENT-HEYVAERT — Richard Orlentstraat 5, 2070 ZWIJNDRECHT
Mr. Gustaaf SAP — Stationsstraat 70, 8730 BEERNEM
Mr. Pierre KONINGS — Prins Van Oranjelaan 178, 1180 BRUSSEL
Mr. Patrick VANDEN AVENNE — Desselgemsestraat 15, 8710 OOIGEM
Mr. Dirk WAUTERS — Bovenbosstraat 17, 3052 BLANDEN
Mr. Julien DE WILDE — Jabekestraat 49, 9230 WETTEREN
Mr. Christian DEFRANCQ — Zonnelaan 23, 3070 KORTENBERG
Mr. Etienne VERWILGHEN — Rue des Foyers 3, LU 1537 LUXEMBOURG

AUDITOR
Ernst & Young Bedrijfsrevisoren c.v., Moutstraat 54, 9000 GENT, represented by Jean-Pierre ROMONT and Danielle VERMAELEN

Total number of pages filed :
Number of pages of the standardform not being filed becouse they are not relevant :

These annual accounts include:
- the report of the statutory auditor
- annual report of the Board of Directors to the ordinary General Meeting of shareholders

A. BERGEN
President of the executive committee

J. HUYGHEBAERT
President of the board of directors

NO	0462.920.226

1. BALANCE SHEET AFTER PROFIT APPROPRIATION

	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
ASSETS			
I. Cash in hand, balances at central banks and post office banks	101.000	511,437	392,899
II. Treasury bills eligible for refinancing at the central bank	102.000	180,795	1,405,267
III. Loans and advances to credit institutions	103.000	51,388,559	31,045,906
A. Repayable on demand	103.100	4,516,606	548,309
B. Other loans and advances (with agreed maturity dates or periods of notice)	103.200	46,871,953	30,497,597
IV. Loans and advances to customers	104.000	99,587,943	82,749,169
V. Bonds and other fixed-income securities	105.000	33,250,049	41,477,942
A. Issued by public bodies	105.100	21,541,742	28,492,188
B. Issued by other borrowers	105.200	11,708,307	12,985,754
VI. Shares and other variable-yield securities	106.000	449,845	720,710
VII. Financial fixed assets	107.000	16,229,745	9,080,437
A. Participating interests in affiliated enterprises	107.100	14,265,987	7,561,902
B. Particpating interests in other enterprises linked by participating interests	107.200	489,115	460,815
C. Other shares constituting financial fixed assets	107.300	185,316	219,034
D. Subordinated loans and advances to affiliated enterprises and other enterprises linked by participating interests	107.400	1,289,327	838,686
VIII. Formation expenses and intangible fixed assets	108.000	241	113
IX. Tangible fixed assets	109.000	769,715	750,716
X. Own shares	110.000		
XI. Other assets	111.000	1,830,031	1,304,420
XII. Deferred charges and accrued income	112.000	15,373,557	14,606,268
TOTAL ASSETS	199.000	219,571,917	183,533,847

NO	0462.920.226

		Period	Preceding Period
		(in thousands of EUR)	
LIABILITIES	Codes	05	10
I. Amounts owed to credit institutions	201.000	64,846,411	49,287,066
A. Repayable on demand	201.100	11,872,474	6,775,820
B. Amounts owed as a result of the rediscounting of trade bills	201.200		
C. Other debts (with agreed maturity dates or periods of notice)	201.300	52,973,937	42,511,246
II. Amounts owed to customers	202.000	110,170,708	94,792,070
A. Saving deposits	202.100	20,556,389	22,736,503
B. Other debts	202.200	89,614,319	72,055,567
1) Repayable on demand	202.201	26,322,928	21,673,820
2) With agreed maturity dates or periods of notice	202.202	63,290,552	50,342,383
3) As a result of the rediscounting of trade bills	202.203	839	39,364
III. Debts represented by securities	203.000	8,473,059	7,733,542
A. Bonds and other fixed-income securities in circulation	203.100	1,076,723	1,112,868
B. Other debt instruments	203.200	7,396,336	6,620,674
IV. Other liabilities	204.000	2,409,934	2,179,334
V. Accrued charges and deferred income	205.000	16,875,144	15,295,236
VI. A. Provisions for liabilities and charges	206.100	236,096	258,413
1. Pensions and similar commitments	206.101	48,848	67,054
2. Taxation	206.102	6,136	4,674
3. Other liabilities and charges	206.103	181,112	186,685
B. Deferred taxes	206.200		
VII. Fund for General Banking Risks	207.000		
VIII. Subordinated liabilities	208.000	7,557,458	6,532,537
CAPITAL AND RESERVES	290.000	9,003,107	7,455,649
IX. Capital	209.000	4,030,110	3,763,334
A. Subscribed capital	209.100	4,030,110	3,763,334
B. Uncalled capital (-)	209.200		
X. Share premium account	210.000	1,723,224	489,999
XI. Revaluation reserve	211.000		
XII. Reserves	212.000	3,249,751	3,202,294
A. Legal reserve	212.100	403,011	353,006
B. Reserves not available for distribution	212.200		
1. Own	212.201		
2. Other	212.202		
C. Untaxed reserves	212.300	78,834	81,382
D. Reserves available for distribution	212.400	2,767,906	2,767,906
XIII. Profit brought forward	213.000	22	22
TOTAL LIABILITIES	299.000	219,571,917	183,533,847

OFF-BALANCE-SHEET HEADINGS	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
I. Contingent liabilities	301.000	40,850,573	33,821,727
A. Non-negotiated acceptances	301.100	125,263	51,311
B. Guarantees in the nature of direct credit substitutes	301.200	6,166,019	3,837,703
C. Other guarantees	301.300	33,025,078	28,580,975
D. Documentary credits	301.400	1,534,209	1,351,734
E. Assets charged as collateral security on behalf of third parties	301.500	4	4
II. Commitments carrying a potential credit risk	302.000	46,339,054	41,737,645
A. Firm credit commitments	302.100	7,498,336	2,766,230
B. Commitments arising from spot purchases of securities	302.200	506,960	110,162
C. Undrawn margin on confirmed credit lines	302.300	38,274,089	38,856,691
D. Underwriting and placing commitments	302.400	59,669	4,562
E. Commitments as a result of open-ended sale and repurchase agreements	302.500		
III. Assets lodged with the credit institution	303.000	249,770,142	174,847,989
A. Assets held for fiduciary purposes	303.100	3,138,839	3,103,256
B. Safe custody and equivalent items	303.200	246,631,303	171,744,733
IV. Uncalled share capital	304.000	36,621	37,488

2. PROFIT AND LOSS ACCOUNT

	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
I. Interest receivable and similar income	401.000	8,753,950	6,838,209
of which income from fixed-income securities	401.001	2,064,003	2,066,574
II. Interest payable and similar charges	502.000	(7,456.840)	(5,422,878)
III. Income from variable-yield securities	403.000	1,085,378	802,238
A. From shares and other variable-yield securities	403.100	23,474	18,555
B. From participating interests in affiliated enterprises	403.200	1,037,471	757,268
C. From participating interests in other enterprises linked by participating interests	403.300	15,901	11,141
D. Other shares constituing financial fixed assets	403.400	8,532	15,274
IV. Commission receivable	404.000	939,980	865,383
V. Commission payable (-)	505.000	(238,762)	(214,240)
VI. Profit (loss) on financial transactions	506.000	229,809	175,255
A. On the trading of securities and other financial instruments	506.100	161,273	104,592
B. On the disposal of investment securities	506.200	68,536	70,663
VII. General administrative expenses (-)	507.000	(1,506,125)	(1,420,576)
A. Remuneration, social security costs and pensions	507.100	822,085	809,402
B. Other administrative expenses	507.200	684,040	611,174
VIII. Depreciation and write-downs on formation expenses and on intangible and tangible fixed assets (-)	508.000	(52,063)	(49,426)
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'	509.000	(38,621)	3,133
X. Adjustments to write-downs (Write-downs (-)) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	510.000	(7,387)	3,770
XI. Utilization and write-back of 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'	411.000	101,541	42,047
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'	512.000	(57,543)	(34,298)
XIII. Transfer from (Transfer to) the Fund for General Banking Risks	513.000		
XIV. Other operating income	414.000	162,532	151,220
XV. Other operating charges (-)	515.000	(85,750)	(80,159)
XVI. Profit (Loss) on ordinary activities before tax	416.000	1,830,099	1,659,678

	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
2. PROFIT AND LOSS ACCOUNT			
XVII. Extraordinary income	417.000	115,191	115,859
A. Adjustment to depreciation and write-downs on intangible and tangible fixed assets	417.100	68	
B. Adjustments to write-dows on financial fixed assets	417.200		
C. Adjustments to provisions for extraordinary liabilities and charges	417.300	1,990	583
D. Gains on the disposal of fixed assets	417.400	113,094	115,265
E. Other extraordinary income	417.500	39	11
XVIII. Extraordinary charges (-)	518.000	(58,919)	(5,670)
A. Extraordinary depreciation and write-downs on formation expenses, and on intangible and tangible fixed assets	518.100		
B. Write-downs on financial fixed assets	518.200	40,913	4,830
C. Provisions for extraordinary liabilities and charges	518.300		
D. Losses on the disposal of fixed assets	518.400	15,800	260
E. Other extraordinary charges	518.500	2,206	581
XIX. Profit (Loss) for the financial year, before tax	419.000	1,886,371	1,769,867
XIX.bis A. Transfer to deferred taxes (-)	519.100		
B. Transfer from deferred taxes	419.200		
XX. Income taxes	520.000	(199,514)	(279,363)
A. Income taxes (-)	520.000	(205,150)	(295,796)
B. Adjustments to income taxes and amounts written back from tax provisions	420.200	5,636	16,433
XXI. Profit for the financial year	421.000	1,686,857	1,490,504
XXII. Transfer to untaxed reserves (-)	522.000	(66)	(76)
(+)	422.000	2,613	341
XXIII. Profit for the financial year, to be appropriated	423.000	1,689,404	1,490,769

NO	0462.920.226

APPROPRIATION ACCOUNT	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
A. Profit (Loss (-)) to be appropriated	600.100	1,689,426	1,490,790
1. Profit (Loss (-)) for the period available for appropriation	600.101	1,689,404	1,490,769
2. Profit (Loss (-)) brought forward from the previous financial year	600.102	22	21
B. Transfers from capital and reserves	600.200		
1. From capital and share premium account	600.201		
2. From reserves	600.202		
C. Appropriation to capital and reserves (-)	600.300	(50,005)	(74,538)
1. To capital and share premium account	600.301		
2. To the legal reserve	600.302	50,005	74,538
3. To others reserves	600.303		
D. Result to be carried froward	600.400	(22)	(22)
1. Profit to be carried forward (-)	600.401	(22)	(22)
2. Loss to be carried forward	600.402		
E. Shareholders' contribution in respect of losses	600.500		
F. Profit for distribution (-)	600.600	(1,639,399)	(1,416,230)
1. Dividends (a)	600.601	1,590,817	1,367,327
2. Directors' entitlements (a)	600.602	725	709
3. Other allocations	600.603	47,857	48,194

(a) only for companies with restricted liability governed by Belgian law

3. ANNEX

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS

(in thousands of EUR)

(Assets heading III.)

A. For the heading as a whole :

	Period	Preceding Period
Codes	05	10
010	21,195,347	10,553,520
020	634,589	

1. - Loans and advances to affiliated enterprises
   - Loans and advances to other enterprises linked by participating interests

	Period	Preceding Period
Codes	05	10
030		

2. - Subordinated loans and advances

B. Other loans and advances (with agreed maturity dates or periods of notice) to credit institutions (Assets sub-heading III.B.)

	Period	Preceding Period
Codes	05	10
040	147	294

1. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment

2. Analysis of loans and advances according to remaining maturity :

	Period
Codes	05
050	35,656,624
060	7,379,354
070	3,540,125
080	181,218
090	114,632

. up to three months
. more than three months and up to one year
. more than one year and up to five years
. more than five years
. undated

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS

(Assets heading IV.)

(in thousands of EUR)

1. Loans and advances to

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	26,002,521	13,110,390
- other enterprises linked by participating interests	020	8,928	723,230

2. Subordinated loans and advances

Codes	Period 05	Preceding Period 10
030	524,567	12,215

3. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment

Codes	Period 05	Preceding Period 10
040		

4. Analysis of loans and advances according to remaining maturity :

	Codes	Period 05
. up to three months	050	51,200,496
. more than three months and up to one year	060	6,190,638
. more than one year and up to five years	070	8,917,644
. more than five years	080	28,676,257
. undated	090	4,602,908

5. Analysis of loans and advances according to type:

	Codes	Period 05
. trade bills (including own acceptances)	100	221,052
. loans and advances arising from leasing and similar claims	110	756,130
. fixe-rate loans	120	1,067,001
. mortgage loans	130	14,777,179
. other loans at terms of more than one year	140	30,889,064
. other loans and advances	150	51,877,517

6. Geographical analysis of loans and advances * :

	Codes	Period 05
. loans and advances in respect of Belgium	160	54,972,123
. loans and advances in respect of other countries	170	44,615,820

7. Breakdown of mortgage loans, with reconstitution at the institution or linked to which there are life assurance and capitalization agreements

	Codes	Period 05
a) . Capital borrowed initially	180	
b) . Reconstitution and actuarial reserves for these loans	190	
c) . Net amount outstanding for these loans (a-b)	200	

* Amount for trade bills is broken down according to beneficiary of the credit.

III. STATEMENT OF BONDS AND OTHER FIXED-YIELD SECURITIES

(Assets heading V.)

(in thousands of EUR)

1. Bonds and other securities issued by :

	Period	Preceding Period
Codes	05	10
- affiliated enterprises	010 2,256,124	478,219
- enterprises linked by participating interests	020 5,308	771

2. Bonds and other securities representing subordinated loans

	Period	Preceding Period
Codes	05	10
	030 47,388	48,251

3. Geographical analysis of the following sub-headings :

	Belgian issuers	Foreign issuers
V.A. . issued by public bodies	040 11,763,769	9,777,973
V.B. . issued by other borrowers	050 2,296,883	9,411,424

4. Listing and maturity

	Carrying value	Market value
a) . Listed securities	060 30,502,504	30,333,167
. Unlisted securities	070 2,747,545	

	Period
Codes	05
b) . Remaining maturity of up to one year	080 7,150,998
. Remaining maturity of more than one year	090 26,099,051

5. Analysis of bonds and other securities classified according to :

	Period
Codes	05
a) . Trading portfolio	100 11,127,944
b) . Investment portfolio	110 22,122,105

6. Trading portfolio :

	Period
Codes	05
. the positive difference between the higher market value and acquisition value of the bonds and other securities valued at market value	120 21,451
. the positive difference between the higher market value and the acquisition value of the bonds and securities valued in accordance with Article 35 ter, §2, paragraph two of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions	130

7. Investment portfolio :

	Period
Codes	05
. the positive difference in respect of all securities whose redemption value is greater than their carrying value	140 312,608
. the negative difference in respect of all securities whose redemption value is less than their carrying value	150 376,079

8. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading V.)

(in thousands of EUR)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	010	33,574,677
Movements during the financial year :		
. acquisitions	020	5,328,558
. transfers (-)	030	(16,515,833)
. adjustments pursuant to Art. 35 ter, §4 and 5 (+/-) of the royal decree of September 23, 2992 concerning the annual accounts of credit institutions	040	(160,650)
. price difference (+/-)	050	(90,588)
As at the end of the financial year	099	22,136,164
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	110	
. from the trading portfolio to the investment portfolio (+)	120	
2. Repercussion on the result	130	
c) WRITE-DOWNS		
As at the end of the financial year	200	6,070
Movements during the financial year		
. recorded	210	9,075
. written back as being redundant	220	(1,085)
. written off	230	
. transfer from one heading to another	240	
. price difference (+/-)	250	
As at the end of the financial year	299	14,060
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	399	22,122,104

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES
(Assets heading VI.)

(in thousands of EUR)

1. Geographical analysis of issuers :

	Period
Codes	05
010 - Belgian issuers	1,757
020 - foreign issuers	448,088

2. Listing :

	Carrying value	Market value
030 - listed securities	443,578	443,649
040 - unlisted securities	6,267	

3. Analysis of shares and other securities classified according to :

	Period
Codes	05
050 . Trading portfolio	433,617
060 . Investment portfolio	16,228

4. Trading portfolio :

	Period
Codes	05
070 . the positive difference between the higher market value and acquisition value of the shares and other securities valued at market value	19,722
080 . the positive difference between the market value and carrying value of securities valued in accordance with Article 35 ter, §2, paraggraph two of the royal decree of 23 September 1992on the annual accounts of credit institutions	

5. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading VI.)

	Period
Codes	05
a) ACQUISITION VALUE	
As at the end of the previous financial year	100 117,285
Movements during the financial year :	
. acquisitions	110 10,940
. transfers (-)	120 (102,149)
. other changes	130 (76)
As at the end of the financial year	199 26,000
b) TRANSFERS BETWEEN PORTFOLIOS	
1. Transfers	
. from the investment portfolio to the trading portfolio (-)	200
. from the trading portfolio to the investment portfolio (+)	210
2. Repercussion on the result	220
c) WRITE-DOWNS	
As at the end of the financial year	300 10,646
Movements during the financial year	
. recorded	310 1,005
. written back as being redundant	320 (1,607)
. written off	330
. transfer from one heading to another	340
. price differences	350 (272)
As at the end of the financial year	399 9,772
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	499 16,228

V. STATEMENT OF FINANCIAL FIXED ASSETS

(Assets heading VII)

A1. Analysis of assets sub-headings VII.A,B,C :

a) Economic sector of the following holdings

(in thousands of EUR)

	Credit institutions		Other companies	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
010 A. participating interests in affiliated enterprises	6,188,312	4,623,713	8,077,675	2,938,189
020 B. participating interests in other enterprises linked by participating interests	467,451	433,451	21,664	27,364
030 C. Other shares constituting financial fixed assets	101,955	196,081	83,361	22,953

b) Listing

	Listed	Unlisted
Codes	05	10
040 A. participating interests in affiliated enterprises	1,058,853	13,207,134
050 B. participating interests in other enterprises linked by participating interests	10,799	478,316
060 C. Other shares constituting financial fixed assets	169,924	15,392

A2. Detailed statement of carrying value as at the end of the financial year of assets headings VII.A, B and C

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)
A. ACQUISITION VALUE			
100 As at the end of the previous financial year	7,607,365	484,995	219,699
110 Movements during the financial year:			
120 . Acquisitions	6,771,036	34,055	111,629
130 . Transfers and asset retirements (-)	(66,855)	(16,179)	(94,106)
199 . Transfers from one heading to another (+/-)	122	10,529	(10,651)
200 As at the end of the financial year	14,311,668	513,400	226,571
B. SURPLUS VALUES			
210 Movements during the financial year:			
220 . Recorded			
230 . Acquired from third parties			
240 . Written off (-)			
299 . Transfers from one heading to another (+/-)			
C. WRITE-DOWNS			
300 As at the end of the previous financial year	45,463	24,180	665
310 Movements during the financial year:			
320 . Recorded	218	105	40,590
330 . Written back as being redundant (-)			
340 . Acquired from third parties			
350 . Written off (-)			
399 . Transfers from one heading to another (+/-)	45,681	24,285	41,255
E. NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (A + B - C)			
499 As at the end of the financial year	14,265,987	489,115	185,316

ARTICLE 29, 1 UNCLAIMED AMOUNTS ON PARTICIPATIONS AND SHARES

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)	TOTAL
IIB Finance Ireland	1,223			
KBC Dublin Capital Plc	30			
KBC Private Equity	34,876			
African Export-Import Bank			408	
Mode Natie			81	
Mts Belgium			5	
Total	36,129		493	36,621

B. Analysis of Assets sub-heading VII D

	Credit institutions		Other enterprises	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
010 1. Subordinated loans and advances to:	831,110	398,117	383,217	275,569
020 . Affiliated enterprises	75,000	165,000		
030 . Participating interests in other enterprises linked by participating interests				

2. Amount of noted shares represented by subordinated loans and advances

3. Detailed statement of subordinated loans and advances

	affiliated enterprises	other enterprises linked by participating interests
Codes	10	15
100 NET CARRYING VALUE AS AT THE END OF THE PREVIOUS FINANCIAL YEAR	673,686	165,000
110 Movements during the financial year	534,786	(90,000)
120 . Additions		
130 . Repayments (-)		
140 . Recorded write downs (-)		
150 . Written back write downs	5,855	
160 . Exchange rate difference (+/-)		
199 . Other (+/-)		
200 NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR	1,214,327	75,000

NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR
CUMULATED WRITE DOWNS AS AT THE END OF THE FINANCIAL YEAR

C. Declaration concerning the consolidated annual accounts

A. Information that must be supplied by all credit institutions:

Pursuant to the provisions of the Royal Decree of 23 September 1992 concerning the consolidated annual accounts of credit institutions, the credit institution draws up annual accounts and a consolidated annual report: YES / ~~NO~~*

B. Information that need only be supplied by the credit institution if it is a subsidiary or a joint subsidiary

. Name, complete address of the registered office and, if the company concerned is incorporated under Belgian law, the VAT number or the national identification number of the parent company(companies), and whether the parent company(companies) draws(draw) up and publishes(publish) consolidated annual accounts in which the annual accounts of the company are included via consolidation*:

- KBC Group NV, Havenlaan 2, 1080 Brussels, BE 403.227.515

. If the parent company(companies) is(are) incorporated under foreign law, where the above-mentioned annual accounts can be obtained*:

* If the annual accounts of the institution are consolidated at various levels, this information must be provided for the largest grouping and and for the smallest grouping of companies to which the institution belongs in its capacity as a subsidiary and for which consolidated annual accounts are drawn up and published.

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
A. Affiliated entreprices :								
AKB Absolut Bank Moskou RU -	Ordinary	127,755,720	95.00	0.00				
Antwerpse Diamantbank NV Antwerpen BE,0404.465.551	Ordinary	7,686,400	100.00	0.00 0.00				
CBC Banque SA Brussels BE,0403.211.380	Ordinary	1,838,956	100.00	0.00				
CENTEA NV Antwerpen BE,0404.477.528	Ordinary	184,561	99.56	0.00				
Ceskoslovenska Obchodni Banka a.s. (CSOB) Prague CZ,-	Ordinary	5,855,000	100.00	0.00				
Covent Garden Real Estate NV Zaventem BE,0872.941.897	Ordinary	2,500	50.00	0.00				
Economic and Investment Bank AD Sofia, BG -	Ordinary	5,269,772	75.58	0.00				
Fidabel NV Brussels BE,0417.309.044	Ordinary	1	0.80	0.00	31-dec-06	EUR	143	1
Fin-Force NV Brussels BE,0472.725.639	Ordinary	3,033	90.00	0.00				
IIB Bank Public Limited Company Dublin IE,-	Ordinary	372,038,509	100.00	0.00				
IIB Finance Ireland Dublin IE,-	Ordinary Preferent AUD Preferent EUR Preferent GBP Preferent USD	2,166,999 700,000 514,000,000 104,000,000 116,000,000	99.99 100.00 100.00 100.00 100.00	0.00 0.00 0.00 0.00 0.00				
IMMO PARIJSSTRAAT NV Leuven BE,0439.655.765	Ordinary	54,380	99.99	0.01	31-dec-06	EUR	14,508	822
KBC Commercial Finance NV Brussels BE,0403.278.488	Ordinary	120,000	100.00	0.00				
KB Consult NV Brussels BE,0437.623.220	Ordinary	67,973	99.62	0.00	31-dec-06	EUR	128	-16
KBC Alternative Investment Management Belgium NV Brussels BE, 0883.054.940	Ordinary	4,699,530	99.99	0.00				
KBC Asset Management NV Brussels BE,0469.444.267	Cat. A shares	2,580,644	44.75	7.11				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Bank Deutschland AG Bremen DE,-	Ordinary Genusrechte	565,915 97,791,500	99.76 100.00	0.00 0.00				
KBC Bank Funding LLC II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Nederland NV Rotterdam NL,-	Ordinary	115,360	100.00	0.00				
KBC Bank (Singapore) Ltd. Singapore SG,-	Ordinary SGD Ordinary USD	10,000,000 35,000,000	100.00 100.00	0.00 0.00				
KBC Clearing NV Amsterdam NL,-	Ordinary	30,491	100.00	0.00				
KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	134,001	99.95	0.00				
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4,999,999	99.99	0.00				
KBC Dublin Capital Plc Dublin IE,-	Ordinary	40,000	100.00	0.00				
KBC Financial Holding Inc. Wilmington US,-	Ordinary	100	100.00	0.00				
KBC Financial Products UK Limited London GB,-	Ordinary	350,100,000	100.00	0.00				
KBC Groep NV Brussels BE,0403.227.515	Ordinary	3,917,845	1.08	0.00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10,585	100.00	0.00				
KBC International Portfolio SA Luxembourg LU,-	Ordinary	16,990	86.49	13.51				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Investments Hong Kong Limited Hong Kong HK, -	Ordinary	30,000,000	100.00	0.00				
KBC Investments Limited London GB,-	Ordinary	170,000,000	100.00	0.00				
KBC Lease Holding NV Leuven BE,0403.272.253	Ordinary	167,595	99.99	0.01				
KBC Lease (UK) Limited Guildford GB,	Ord. Shares of 1 GBP	7,327,865	34.00	66.00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1,000	100.00	0.00	31-dec-06	USD	25	0
KBC Peel Hunt Limited London GB,-	Ordinary	26,303,595	51.27	48.73				
KBC Pinto Systems NV Brussels BE,0473.404.540	Ordinary	2,793	49.42	10.60				
KBC Private Equity NV Brussels BE,0403.226.228	Ordinary Ordinary - 25% fully paid-up	445,416 73,502	100.00 100.00	0.00 0.00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99,947	99.95	0.05				
KBC Real Estate NV Brussels BE, 0404.040.632	Ordinary	467,121	73.18	0.00				
KBC Securities NV Brussels BE,0437.060.521	Ordinary	1,898,517	99.95	0.05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500,000	100.00	0.00	31-dec-06	AUD	264	79
KBC Vastgoedportefeuille België NV Brussels BE, 0438.007.854	Ordinary	3,000	5.19	94.81				
KBC Verzekeringen NV Leuven BE,0403.552.563	Ordinary	1	0.00	0.00	31-dec-06	EUR	1,610,466	436,149
Kereskedelmi és Hitelbank Rt. Budapest HU,-	Reg. Sh. HUF 2000	66,307,204,412	100.00	0.00				
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217,327,103	80.00	0.00				
Ligeva NV Mortsel BE,0437.002.519	Ordinary	1	0.02	99.98				
Luxembourg Offices Securitisations SA Luxemburg LU,-	Ordinary	99	99.00	1.00	31-dec-05	EUR	19	-12

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Mezzafinance NV Brussels BE,0453.042.260	Ordinary	1	0.02	99.98				
Omnia CVBA Leuven BE,0413.646.305	Ordinary	1	0.01	0.00	31-dec-06	EUR	784	280
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	2,250	50.00	0.00				
Valuesource NV Brussels BE,0472.685.453	Ordinary	1	0.01	0.00	31-dec-06	EUR	407	-12
Wetenschap Real Estate NV Zaventem BE,0871.247.565	Ordinary	3,000	50.00	50.00	31-dec-06	EUR	603	-1
B. Enterprises linked by participating interests >20% and <= 50%								
Banking Funding Company NV Brussels BE, 0884.525.182	Ordinary	12,464	20.27	0.00	first financial year ends at 31/12/2007			
BCC Corporate NV Brussels BE, 0883.523.807	Ordinary	5,747	23.95	0.00	first financial year ends at 31/12/2007			
Bedrijvencentrum Rupelstreek NV Aartselaar BE,0427.329.936	Ordinary	5,000	33.33	0.00	31-dec-06	EUR	585	63
Brand and Licence Company NV Brussels BE, 0884.499.250	Ordinary	123	20.00	0.00	first financial year ends at 31/12/2007			
Isabel NV Brussels BE,0455.530.509	Ordinary	253,322	25.33	0.00				
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2,722,634	34.00	0.00				
C. Enterprises linked by participating interests >10% and <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE,0428.014.676	Ordinary	40	9.52	0.00	31-dec-06	EUR	1,996	34
Bedrijvencentrum Regio Roeselare NV Roeselare BE,0428.378.724	Ordinary	500	18.52	0.00	31-dec-06	EUR	528	21
Bedrijvencentrum Vilvoorde NV Vilvoorde BE,0434.222.577	Ordinary	338	9.31	0.00	31-dec-06	EUR	1,046	1
Bedrijvencentrum Westhoek NV Ieper BE,0430.383.258	Ordinary	200	11.85	0.00	31-dec-06	EUR	487	-8
Bedrijvencentrum Zaventem NV Zaventem BE,0426.496.726	Ordinary	350	11.64	0.00	31-dec-06	EUR	333	-102

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
BEM NV Brussels BE, 0461.612.904	Ordinary	1,500	6.47	0.00	31-dec-06	EUR	4,916	10
BH-Capital a.s. Prostejov CZ,-	Ordinary	717,300	14.06	0.00	31-dec-06	CZK	496,210	13,069
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16.34	0.00	31-dec-06	EUR	78	1
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10.84	0.00	31-dec-06	EUR	2,291	20
Europay Belgium CV Brussels BE,0434.197.536	Ordinary	4,857	14.04	1.99	31-dec-06	EUR	1,175	664
Orbay NV Utrecht, NL,-	Ordinary	735,000	13.36	0.00	31-dec-06	EUR	8,030	2,545
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347,886	9.75	2.24	31-mrt-07	EUR	145,051	22,851
Visa Belgium CVBA Brussels BE,0435.551.972	Ordinary	22	12.29	2.24	31-dec-06	EUR	265	29

VI §2 LIST OF ENTERPRISES IN RESPECT OF WHICH THE CREDIT INSTITUTION IS FULLY LIABLE IN ITS CAPACITY AS A PARTNER OR MEMBER WITH UNLIMITED LIABILITY

Codes	Name, registered office, VAT number		Possible codes (*)
	05		10
	IIB Finance Unltd., Sandwith Street, Dublin 2		C
	KBC Clearing, Oudezijds Voorburgwal 302, NL-1012 GL Amsterdam		C
	KBC Asset Management, Havenlaan 2,B-1080 Brussel ,	0469.444.267	C
	KBC Asset Management International Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Asset Management Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Financial Services (Ireland) Ltd, KBC House, 4 George's Dock IFSC, Dublin 1		C
	KBC Fund Managers Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Securities, Havenlaan 12, B-1080 Brussel,	0437.060.521	C
	Antwerpse Diamantbank NV, Pelikaanstraat 54, 2018 Antwerpen	0404.465.551	C

(*) The annual accounts of the enterprise:

A. Will be published through a deposition in the National Bank of Belgium
B. Will be published effectively in another member state of the EC pursuant to art.3 of the directive 68/151/EEG;
C. Will be fully or proportionally consolidated in the consolidated annual statements of the enterprise which is prepared, audited and published pursuant to the Royal Decree of 29 September 1992 on the consolidated annual account of the credit institutions.

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(Assets heading VIII.)

A. Detailed statement of formation expenses

(in thousands of EUR)

	Codes	Period 05
Net carrying value as at the end of the previous financial year	010	
Movements during the financial year :		
. New costs	020	
. Whrite-downs (+/-)	030	
. Other changes (+/-)	040	
Net carrying value as at the end of the financial year :	099	
- costs incurred at establishment or capital increase, costs of issuing loans and other formation expenses	110	
- restructuring costs	120	

B. Intangible fixed assets

	Codes	Goodwill 05	Other intangible fixed assets 10	Of which provisions as compensation for bringing in transactions art 27 bis * 15
a) ACQUISITION VALUE				
As at the end of the previous financial year	210	551	912	
Movements during the financial year				
. additions, including own production	220		188	
. Sales and disposals (-)	230			
. transfers from one heading to another (+/-)	240	(46)	(77)	
As at the end of the financial year	299	505	1,023	
b) DEPRECIATION AND WRITE-DOWNS				
As at the end of the previous financial year	310	551	799	
Movements during the financial year				
. recorded	320		55	
. written back as being redundant (-)	330			
. acquired from third parties	340			
. written off (-)	350	(46)	(72)	
. transfers from one heading to another (+/-)	360			
As at the end of the financial year	399	505	782	
c) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) - b))	499	0	241	

* If there is a substantial amount under this heading

VIII. STATEMENT OF TANGIBLE FIXED ASSETS

(Assets heading IX) (in thousands of euros)

	Codes	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
		05	10	15	20	25	30
a) ACQUISITION VALUE							
As at the end of the previous financial year	010	1,070,306	30,351	127,290	9,932	212,651	
Movements during the financial year							
- acquisitions, including the resulting fixed assets	020	39,667	792	6,593	1,107	37,521	
- transfers and asset retirements	030	(24,159)	(14,746)	(43,983)		(2,556)	
- transfers from one heading to another	040		244	(244)			
As at the end of the financial year	099	1,085,814	16,641	89,656	11,039	247,616	
b) REVALUATION SURPLUSES							
As at the end of the previous financial year	110	73,580					
Movements during the financial year							
. recorded	120						
. acquired from third parties	130						
. written off (-)	140	(7,268)					
. transfers from one heading to another (+/-)	150						
As at the end of the financial year	199	66,312					
c) DEPRECIATION AND WRITE-DOWNS							
As at the end of the previous financial year	210	566,643	27,324	95,269	370	83,788	
Movements during the financial year							
. recorded	220	33,904	1,750	6,142	425	9,787	
. written off as being redundant	230	(68)					
. acquired from third parties	240	3,572					
. written off (-)	250	(20,553)	(14,725)	(44,109)		(2,156)	
. transfers from one heading to another (+/-)	260						
As at the end of the finacial year	299	583,498	14,349	57,302	795	91,419	
d) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b) - c))	399	568,628	2,292	32,354	10,244	156,197	
of which . land and buildings	410				10,244		
. plant, machinery and equipment	420						
. furniture and vehicles	430						

IX. OTHER ASSETS
(ASSETS HEADING XI)

Breakdown when there occur an important amount under this item

	05
Codes	period
010	
020	
030	
040	
050	
060	
070	

X. DEFERRED CHARGES AND ACCRUED ASSETS
(ASSETS HEADING XII)

	Codes	05
		period
1. Deferred charges	110	10,205
2. Accrued income	120	15,363,352

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS

(Liabilities heading I)

(in thousands of EUR)

A. For the heading as a whole :

	Period	Preceding period
Codes	05	10
010 - amounts owed to affiliated enterprises	6,527,930	6,043,230
020 - amounts owed to other enterprises linked by participating interests	343	20,714

B. Analysis of amounts owed, other than those repayable on demand, according to remaining maturity (Liabilities sub-headings I.B. and C.)

	Period
Codes	05
110 . Up to three months	45,315,111
120 . More than three months and up to one year	7,595,075
130 . More than one year and up to five years	13,301
140 . More than five years	50,450
150 . Undated	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS

(Liabilities heading II)

(in thousands of EUR)

1. Amounts owed to:

	Period	Preceding period
Codes	05	10
210 - affiliated enterprises	29,866,020	23,483,307
220 - other enterprises linked by participating interests	4,861	1,723

2. Geographical analysis of amounts owed :

	period
Codes	05
310 - in respect of Belgium	55,824,219
320 - in respect of other countries	54,346,489

3. Analysis according to remaining maturity :

	period
Codes	05
410 . Repayable on demand	25,699,274
420 . Up to three months	36,551,262
430 . More than three months and up to one year	9,486,223
440 . More than one year and up to five years	12,694,564
450 . More than five years	5,174,855
460 . Undated	20,564,530

XIII. STATEMENT OF DEBTS REPRESENTED BY SECURITIES

(Liabilities heading III.)

(in thousands of EUR)

1. Securities which, to the knowledge of the credit institution, are debts

	Period	Preceding period
Codes	05	010
- to affiliated enterprises	010 26,648	36,027
- to enterprises linked by participating interests	020 880	

2. Analysis according to remaining maturity

	Period
Codes	05
. up to three months	110 7,057,875
. more than three months and up to one year	120 477,874
. more than one year and up to five years	130 405,766
. more than five years	140 531,544
. undated	150

XIV. STATEMENT OF OTHER LIABILITIES

(Liabilities heading IV)

(in thousands of EUR)

	Period
Codes	05
1. Expired debts in relation to taxes, payments and social charges against:	
a) Tax Department	210
b) National Office of Social Security	220
2. Taxes :	
a) taxes payable	230 76,580
b) estimated tax liabilities	240 184,478

	Period
Codes	05
3. Other liabilities Breakdown when there occur an important amount under this item	
- holiday money, remuneration and other staff charges payable	310 231,488
- dividends payable	320 875,810
- other	330 1,041,578
	340

XV. ACCRUED CHARGES AND DEFERRED INCOME

(in thousands of EUR)

(Liabilities V)

	Codes	Period 05
1. Accrued charges	010	16,800,868
2. Deferred income	020	74,276

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of EUR)

(Liabilities sub-heading VI. A. 3.)

Breakdown when there occur an important amount under this item	Codes	Boekjaar 05
. Guarantee credits	110	55,877
. Litigation	120	87,970
. Provision VAT-litigation	130	16,744
. Provision disablement benefit	140	14,076
. Other	150	6,445

XVII. STATEMENT OF SUBORDINATED LIABILITIES

(in thousands of EUR)

(LIABILITIES heading VIII)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- debts to affiliated enterprises	210	3,299,768	3,420,568
- debts to other enterprises linked by participating interests	220		

B.

	Codes	Period 05
- Costs attendants on subordinated liabilities	310	392,120

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0001	JPY	30,315	22/04/1994-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from the 10th year
0002	GBP	706,109	19/12/2003-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank in case of Supervisory Event
0003	EUR	185,920	30/11/1998-30/11/2008 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Group at the latest 30/11/2008
0004	EUR	250,000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Bank NV
0005	EUR	2,479	10/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0006	EUR	372	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0007	EUR	16,113	01/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0008	EUR	10,833	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0009	EUR	33,533	06/11/1998-06/11/2008 Issued by KBC Bank	a) Fiscal requalification
0010	EUR	3,022,372	Subordinated certificate On-tap Issued by KBC Bank	a) Unconditional
0011	USD	208,740	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option issued from 25/04/1989 onwards
0012	EUR	300,000	11/05/1999-perpetual Deposits originated by KBC International Finance	a) Fiscal requalification Repayment possible from the 10th year
0013	EUR	6,000	20/12/1999-20/12/2009 Deposits originated by KBC International Finance	a) Fiscal requalification
0014	EUR	886,617	Continuous issues Deposits originated by KBC IFIMA	a) Fiscal requalification
0015	EUR	300,000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0016	EUR	48,957	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0017	USD	8,685	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0018	CZK	93,885	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0019	SKK	89,331	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0020	SKK	43,177	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA	a) Fiscal requalification
0021	EUR	279,512	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0022	EUR	299,514	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0023	USD	406,834	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0024	EUR	76,095	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0025	EUR	25,000	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0026	USD	101,895	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification
0027	EUR	92,250	30/06/2005-30/06/2017 Deposits originated by KBC IFIMA	a) Fiscal requalification
0028	EUR	5,000	30/06/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0029	EUR	5,815	15/07/2005-15/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0030	EUR	22,105	12/08/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

A. SHARE CAPITAL

		amounts	number of shares
	Codes	05	10
1. Issued capital (liabilities sub-heading IX.A.)			
- As at the end of the previous financial year	010	3,763,334	xxxxxxxxxxxxxxxxxxxx
- Movements during the financial year	020	266,776	
	030		
	040		
	050		
	060		
- As at the end of the financial year	099	4,030,110	xxxxxxxxxxxxxxxxxxxx
2. Structure of capital			
2.1. Types of share			
- ordinaries	110	4,030,110	412,331,794
	120		
	130		
	140		
	150		
2.2. Registered or bearer shares			
* Registered			
KBC Bank and Insurance Holding NV			412,331,793
KBC Insurance NV			1
TOTAL REGISTERED	160	xxxxxxxxxxxxxxxxxx	412,331,794
* Bearer	170	xxxxxxxxxxxxxxxxxx	

B. UNPAID CAPITAL

		unclaimed amounts	claimed, unpaid amounts
	Codes	05	10
Shareholders who still have to pay	210		
	220		
TOTAL	299		

		total amount of the capital in possession	corresponding number of shares
	Codes	05	10
C. OWN SHARES held by:			
- the credit institution	310		
- the credit institution 's subsidiaries	320		
D. Commitments to issue shares			
1. In consequence of the exercise of conversion rights:			
. Amount of current convertible loans	410	185,920	
. Amount of capital to be issued	420	185,920	
. Maximum number of shares for issue	430		4,901,015
2. In consequence of the exercise of subscription rights			
. Number of outstanding subscription rights	440		
. Amount of capital to be issued	450		
. Maximum number of shares for issue	460		
E. AUTHORIZED CAPITAL UNISSUED	510	2,000,000	

		number of shares	voting right
	Codes	05	10
F. SHARES OUT OF THE CAPITAL of whom:			
- shares held by the credit institution itself	610		
- sharers held by the credit institutions' daughters	620		

XIX. ANALYSIS OF THE BALANCE ACCORDING TO EUROS AND FOREIGN CURRENCY

(in thousands of EUR)

		In EUR	In foreign currency (Euro equivalent)
	Codes	05	10
TOTAL ASSETS	010	162,204,888	57,367,029
TOTAL LIABILITIES	020	158,823,968	60,747,949

XX. FIDUCIARY TRANSACTIONS IN ACCORDANCE WITH ARTICLE 27TER §1, PARAGRAPH 3

Assets and liabilities headings involved

	Period
Codes	05
110	
120	
130	
140	
150	
160	
170	
180	
190	
200	
210	
220	
230	

XXI. STATEMENT OF GUARANTEED DEBTS AND COMMITMENTS

(in thousands of EUR)

(1) Amount of subscription or carrying value of the mortgaged buildings, when these are lower
(2) Amount of subscription
(3) Book value of the premised assets
(4) Amount of the concerned assets

Collateral security constituted or irrevocably committed by the instituion on its own assets :

	Mortgages (1)	Pledges on the Trade Fund (2)	Pledges on other assets (3)	Securities on future assets (4)
Codes	05	10	15	20
a) as guarantee for debts and commitments of the credit institution				
1. Liabilities headings				
Mobilisations				
Fixed pledge in respect of European Investment Bank credit facility				
Asset pledge requirement KBC New York				
Pledge Federal Reserve Bank of New York				
Other				
2. Off-balance-sheet headings				
Margins in respect of options and futures				
010			27,445,387	
020			624,911	
030			53,659	
040			3,215,867	
050			2,056,167	
110				
120			2,833,844	
130				
140				
150				
b) as guarantee for debts and commitments of third parties				
1. Liabilities headings				
Other				
210				
220			4	
230				
240				
250				
2. Off-balance-sheet headings				
310				
320				
330				
340				
350				

XXII. STATEMENT OF CONTINGENT LIABILITIES AND OF COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

(Off-balance-sheet headings I. and II.)

(in thousands of EUR)

	Codes	Period 05	Preceding Period 010
. Total of contingent liabilities for affiliated companies	010	27,567,959	24,295,786
. Total of contingent liabilities for companies linked by participating interests	020	92,634	78,312
. Total of commitments in respect of associated companies	030	315	47,455
. Total of commitments in respect of companies linked by participating interests	040		

XXIII. DETAILS CONCERNING THE OPERATING RESULTS

(Profit and loss account headings I. to XV.)

	Codes	Period 05	Preceding Period 10
A.1. Employees in the personnel register			
a) Number of employees at the end of the period	100	11,905	11,942
b) Average number of employees calculated in full-time equivalents	101	10,570	10,919
c) Number of hours worked	102	14,732,074	14,520,316
A.1.Bis. Temporary personnel and persons placed at the disposal of the enterprise			
a) Number of employees registered at the end of the period	110		
b) Average number of employees calculated in full-time equivalents	111	8	5
c) Number of hours worked	112	16,206	9,003
d) Charges to the enterprise	113	554	300
2. Staff charges			
a) Remuneration and direct social benefits	210	579,087	584,553
b) Employer social security contributions	220	154,783	155,328
c) Employer premiums for extra-legal insurance	230	54,204	41,826
d) Other	240	31,420	26,940
e) Pensions	250	2,591	755
3. Provisions for pensions			
a) additions (+)	310	8,079	9,184
b) expenditure and write-backs (-)	320	(26,285)	(32,102)
B. 1. Other operating income			
Breakdown of heading XIV of the profit and loss account if there is a substantial amount under this heading	410		
	420		
	430		
2. Other operating charges (Profit and loss account heading XV.)			
. Taxation	510	83,766	77,782
. Other operating charges	520	1,984	2,377
Breakdown of heading XV if there is a substantial amount under this heading	610		
	620		
	630		
C. Operating results in respect of associated companies			
. Income	710	3,818,325	2,395,643
. Charges	720	5,725,619	3,040,822

XXIII. DETAILS CONCERNING THE OPERATING RESULTS (continued)

D. Analysis of operating income according to source

(in thousands of EUR)

	Period		Previous period	
	Belgian branches	Foreign branches	Belgian branches	Foreign branches
Codes	05	10	15	20
I. Interest receivable and similar income 010	6,155,296	2,598,654	4,917,414	1,920,795
III. Income from variable-yield securities				
. shares and other variable-yield securities 110	23,458	16	18,542	13
. participating interests in associated companies 120	1,037,471		757,268	
. participating interests in companies linked by participating interests 130	15,901		11,141	
. Other shares constituting financial fixed assets 140	8,532		15,274	
IV. Commission receivable 210	848,770	91,210	793,853	71,530
VI. Profit on financial transactions				
. on the trading of securities and other financial instruments 310	156,288	4,985	71,310	33,282
. on the disposal of investment securities 320	77,629	(9,093)	64,755	5,908
XIV. Other operating income 410	155,008	7,524	129,160	22,060

Remarks :

1) The attachment to the standard form must include a an analysis by category of activities and by geographical market if there are substantial differences between these markets as regards the organization of sales of products and services that are part of the credit institution's ordinary activities

2) Headings III.B. and C. of the profit and loss account must include in the attachment to the standard form a geographical distinction by refering to the place where the head office of the enterprise is situated

Geographical analysis of Profit and loss account sub-headings III.B.,C. and D.

III. Income from variable-yield securities

	B.Participating interests in affiliated enterprises	C. Participating interests in other enterprises linked by participating interests	D. Other financial fixed assets	TOTAL
Belgium	368,724	5,166	3,146	377,036
Germany	3,000			3,000
Egypt			11	11
Great-Britain	48,972			48,972
Hungary	43,229			43,229
Hongkong	8,998			8,998
Ireland	151,884		4,117	156,001
Luxemburg	2,735			2,735
Netherlands	19,088		81	19,169
Panama			19	19
Poland	21,342			21,342
Portugal		10,735	1,157	11,892
Singapore	6,175			6,175
Czechie	363,324			363,324
Total	1,037,471	15,901	8,531	1,061,903

XXIV. STATEMENT OF FORWARD OFF-BALANCE-SHEET TRANSACTIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS NOT INVOLVING COMMITMENTS CARRYING A POTENTIAL CREDIT RISK IN THE SENSE OF OFF-BALANCE-SHEET HEADING II.

(in thousands of EUR)

TYPE OF TRANSACTION		AMOUNT AT CLOSURE DATE OF THE ACCOUNTS	OF WHICH TRANSACTIONS NOT INTENDED AS HEDGES
	Codes	05	010
1. On securities			
- Forward purchases and sales of securities	010		
2. On foreign currency (a)			
- forward exchange operations	110	103,643,021	103,631,224
- currency and interest rate swaps	120	70,789,710	70,714,513
- currency futures	130		
- currency options	140	26,400,234	26,400,234
- foreign exchange contracts	150		
3. On other financial instruments			
1. Forward interest-rate operations (b)			
- interest rate swap agreements	210	565,432,129	563,681,991
- interest rate futures	220	18,379,619	18,379,619
- forward rate agreements	230	3,835,225	3,835,225
- interest rate options	240	104,331,727	104,331,727
2. Other forward purchases or sales (c)			
- other option transactions	310	10,997,888	10,997,888
- other future transactions	320		
- other forward purchases and sales	330	474,147	

CALCULATION IN THE NOTES OF THE ACCOUNTS OF THE EFFECT ON RESULTS OF THE DEROGATION FROM THE VALUATION RULE OF ART.36BIS,§2,WITH REGARD TO FORWARD INTEREST-RATE OPERATIONS

Categories of forward interest-rate operations		Amounts as at year end of the accounts	Difference between market value and carrying value
	Codes	05	010
a) within the framework of cash management	410	25,785,656	34,672
b) within the framework of ALM	420	10,553,932	256,081

a) Amounts to be deliverd
b) Nominal/Notional reference amount
c) Purchase/Sale price agreed between the parties
d) + positive difference between market value and carrying value
- negative difference between market value and carrying value

XXV. EXTRAORDINARY RESULTS

A.

	Codes	Period 05
. Gains on the transfer of fixed assets to associated companies	010	
. Losses on the transfer of fixed assets to associated companies	020	

B.

	Codes	Period 05
Other extraordinary income (subheading XVII.E. of the profit and loss account): Breakdown, if there is a substantial amount under this heading		
	110	
	120	
	130	
	140	
	150	
Other extraordinary charges (subheading XVIII.E. of the profit and loss account) : Breakdown, if there is a substantial amount under this heading		
	210	
	220	
	230	
	240	
	250	

XXVI. INCOME TAXES

A. Breakdown of Profit and loss account sub-heading XX.A.

	Codes	Period 05
1. Income taxes for the financial year		
a. Taxes and advance levies due or paid	310	156,516
b. Capitalized excess tax and advance levies paid	320	
c. Estimated additional charges for income taxes (recorded under Liabilities heading IV.)	330	34,669
2. Income taxes for previous financial years		
a. Additional taxes due or paid	410	12,236
b. Estimated additional taxes (recorded under Liabilities heading IV.) or additional tax for which a provision has been formed (recorded under Liabilities sub-heading VI.A.2.)	420	1,729

B. MAIN DIFFERENCES BETWEEN PROFIT BEFORE TAX AS SHOWN IN THE ANNUAL ACCOUNTS AND ESTIMATED TAXABLE PROFIT

With separate mention of the differences stemming from the lapse of time between the moment the accounting profit is determined and the moment the taxable profit is determined (insofar as the profit for the period was materially affected by taxes)

The difference between profit before tax and estimated taxable profit stems from

	Codes	Period 05
- movements in taxable reserves and provisions	510	1,941
- the specific tax treatment accorded to gains and losses on shares	520	(263,782)
- the application of the FII (Franked Investment Income) system to dividends received	530	(1,007,466)
- disallowed expenditure (other than depreciation charges, impairment losses on shares and company tax)	540	26,056
	550	

XXVI. INCOME TAXES (continued)

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAX FOR THE FINANCIAL YEAR

	Period
Codes	05
010	97,087
020	(40,913)
030	

D. SOURCES OF DEFERRED TAX BALANCES
(when this information is important to get an overall view of the financial position of the credit institution)

	Period
Codes	05
1. Deferred tax debit	
. Taxed provisions and write-downs	110 77,324
. Exaggerated depreciations	120 924
	130
	140
	150
2. Deferred tax credit	
. Revaluation resources to be taxed	210 9,201
	220
	230
	240
	250

XXVII. OTHER TAXES AND TAXATION FOR ACCOUNT OF THIRD PARTIES

	Period	Previous period
Codes	05	10
A. Value-added tax, turnover tax and special taxes charged during the financial year		
1. To the enterprise (deductible)	310 27,837	21,543
2. By the enterprise	320 34,977	29,814
B. Amounts withheld for account of third parties for:		
1. Payroll withholding taxes	410 165,885	167,740
2. Withholding taxes on investment income	420 167,342	140,241

XXVIII. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET THAT ARE NOT REFERRED TO IN THE SECTION ABOVE OR UNDER OFF-BALANCE-SHEET HEADINGS

	Codes	Period 05
A. Material commitments to purchase fixed assets	010	
	020	
	030	
	040	
Material commitments to sell fixed assets	110	
	120	
	130	
	140	
B. Material disputes (*) and other important commitments (**) :	210	
	220	
	230	
	240	
C. In the event, a brief description of the supplementary retirement or survivor's pensions for staff or senior management, with an indication of the measures designed to cover the attendant costs (***).	310	
	320	
	330	
	340	
Pensions paid for by the credit institution itself		
. Estimated amount of the commitments for the credit institution stemming from work already performed	410	
. Basic amount and how it was calculated	420	

(*)
The most significant, pending legal disputes are commented on below. Claims filed against KBC Bank and its companies are treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable'))

Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has provided below a summary of recent developments relating to the most important cases in this category.

These cases are as follows :
the information provided is limited in order not to prejudice the position of the group in ongoing litigation

Possible outflow
In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.

Remotely probable outflow
On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial
All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings before the Indictment Division have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB, and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the sum of 62.3 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

(**)
The credit institution irrevocably guarantees all the commitments of the Irish companies named below as at 31 December 2007; these companies may accordingly be exempted from certain publication requirements under section 17 of the Irish Companies Amendment Act

IIB Bank
KBC Asset Management International Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited

The credit institution irrevocably guarantees all the commitments of the companies named below as at 31 December 2007; these companies are be exempted from publication on consolidated basis.

KBC Asset Management NV
KBC Clearing
KBC Securities NV
Antwerpse Diamantbank NV

(***)
A system of extra pension provision exists for all members of staff,
including old-age pensions, death benefits, pensions for the surviving partner and orphan's pensions
The amount of these provisions depends on the final average salary, the number of years in service and the age of the person when he/she takes retirement, this within the scope of a 'defined benefits' scheme

These pension provisions are financed entirely by the employer by means of yearly sums charged against profit. These sums, calculated on actuarial basis according to the the 'aggregate cost' method, are transferred to KBC's Pensioenfonds VZW, which is responsible for the supervision of the provisions that are set aside, the payment of the extra pensions and the relevant administration

The directors on the Executive Committee are also entitled to extra pension provisions, based on similar principles. A group assurance policy has been taken out for this purpose.

There is also a supplementary pension plan (capitalization system) based exclusively on personal contributions by staff made through the deduction of sums from pay. The credit institution guarantees the capitalization of the contributions made at an interest rate of 4.75% a year for the period through 30 June 1999 and at an interest rate of 3.75% from 1 july 1999,which is effective on disbursement.
The management of the provisions set aside for this purpose, the payment of pensions and the relevant administration are entrusted to the VZW Aanvullend pensioenfonds KBC and Aanvullend Pensioenfonds Directie KBC, respectively.

XXIX. FINANCIAL RELATIONSHIPS

A. WITH DIRECTORS AND PARTNERS
B. WITH NATURAL OR LEGAL PERSONS WHO CONTROL THE COMPANY DIRECTLY OR INDIRECTLY, AND ARE NOT ASSOCIATED COMPANIES
C. WITH OTHER COMPANIES THAT DIRECTLY OR INDIRECTLY CONTROL THE PERSONS REFERRED TO UNDER B.

		Period	
		Codes	05
A.	1. Amounts receivable from the above-mentioned persons	510	3,004
	2. Liabilities incurred in their favour	520	
	3. Other significant commitments entered into in their favour	530	
	Most important conditions in relation to A1, A2 en A3.		
B.	1.The amount of direct and indirect remuneration and of pensions charged to the profit and loss account, on the understanding that this does not relate exclusively or primarily to the situation of a single identifiable person:		
	- to the directors and managers	610	9,826
	- to former directors and managers	620	60
D.	Note regarding assignments carried out by the auditor and work performed by companies with which the auditor has entered into professional co-operation arrangements. Pursuant to Article 134 of the Companies Code, shown below is: The total of the fees paid by KBC Bank NV to Ernst&Young and to the companies with which it has entered into a professional co-operation arrangement :		
	- Fees paid for the statutory audit assignment	810	1,839
	- Fees paid for other certifications	820	149
	- Fees paid for tax advice:	830	59
	- Fees paid for other non-audit services	840	40

SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise: 310

I. STATEMENT REGARDING THE COMPANY'S WORKFORCE

A. EMPLOYEES IN THE PERSONNEL REGISTER

	Codes	1. Full-time *period*	2. Part-time *period*	3. Total (T) or total in full-time equivalents (FTE) *period*	4. Total (T) or total in full-time equivalents (FTE) *period*
1. During the present and the preceding financial period					
Average number of employees	100	7,246	3,890	11,136 (FTE)	10,230 (FTE)
Number of actual hours worked	101	10,439,225	3,126,907	13,566,132 (T)	13,400,716 (T)
Staff charges (in thousands of EUR)	102	561,008	168,042	729,050 (T)	729,530 (T)
Benefits in addition to wages (in thousands of EUR)	103	10,884	3,260	14,144 (T)	13,709 (T)

2. As at the closing date of the financial period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees recorded in the personnel register	105	7,271	3,882	9,932.6
b. By nature of the employment contract				
Contract of unlimited duration	110	7,271	3,882	9,932.6
Contract of limited duration	111			
Contract for specific work	112			
Substitute's contract	113			
c. By sex				
Men	120	4,757	933	5,353.3
Women	121	2,514	2,949	4,579.3
d. By professional category				
Senior management	130	97	1	97.8
Employees	134	7,174	3,881	9,834.8
Workers	132			
Other	133			

B. TEMPORARY PERSONNEL AND PERSONS PLACED AT THE DISPOSAL OF THE ENTERPRISE

During the financial period	Codes	1. Temporary personnel	2. Persons placed at the disposal of the enterprise
Average number of personnel employed	150	8	
Number of hours worked	151	16,206	
Charges to the enterprise (in thousands of EUR)	152	554	

II. CHANGES IN THE WORKFORCE DURING THE FINANCIAL PERIOD

A. NEW EMPLOYEES

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of new employees entered in the personnel register during the financial period	205	513	58	557.1
b. By nature of the employment contract				
Contract of unlimited duration	210	513	58	557.1
Contract of limited duration	211			
Contract for specific work	212			
Substitute's contract	213			
c. By sex and level of education				
Men : Primary education	220			
Secondary education	221	9	1	9.8
Higher, non-university education	222	137	1	137.8
University education	223	94	1	94.8
Women Primary education	230			
Secondary education	231	12	28	32.2
Higher, non-university education	232	179	14	189.8
University education	233	82	13	92.7

B. Employees leaving the company

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees whose contract termination date as entered in the personnel register was in the financial period	305	377	294	553.8
b. By nature of the employment contract				
Contract of unlimited duration	310	377	294	553.8
Contract of limited duration	311			
Contract for specific work	312			
Substitute's contract	313			
c. By sex and level of education				
Men : Primary education	320			
Secondary education	321	69	89	115.9
Higher, non-university education	322	99	44	124.9
University education	323	91	11	97.5
Women Primary education	330			
Secondary education	331	25	89	78.6
Higher, non-university education	332	57	46	90.0
University education	333	36	15	46.9
d. By reason for contract termination				
Pension	340	54	170	141.1
Early retirement	341			
Dismissal	342	30	5	33.8
Other reason	343	293	119	378.9
Of which: number of former employees who continued rendering services to the enterprise at least on a part-time basis as self-employed persons	350			

III. STATEMENT CONCERNING THE IMPLEMENTATION OF MEASURES STIMULATING EMPLOYMENT DURING THE FINANCIAL PERIOD

MESURES STIMULATING EMPLOYMENT	Codes	Employed persons involved 1. Number	2. In full-time equivalents	3. Amount of financial profit (in thousands of EUR)
1. Mesures generating a financial profit (*)				
1.1. Recruitment benefit plan (to encourage the recruitment of job-seekers in risk categories)	414			
1.2. Conventional part-time early retirement plan	411			
1.3. Career Break	412			
1.4. Reduction in working hours (part-time career break)	413			
1.5 'Sociale Maribel' plan	415			
1.6. Structural reduction in social security contributions	416			
1.7. On-placement programmes	417			
1.8. Service jobs	418			
1.9. Job - training agreements	503			
1.10. Apprenticeship contracts	504			
1.11. First job agreements	419			
2. Other measures				
2.1.Training period for young people	502			
2.2. Succesive employment contracts of limited duration	505			
2.3. Conventional early retirement	506	17	17	
2.4. Reduction in personal social security contributions for low wage employees	507			
Number of employees involved in one or more measures stimulating employment				
- total for the financial period	550	17	17	
- total for the previous financial period	560	26	26	

IV. INFORMATION ON EMPLOYEE TRAINING DURING THE FINANCIAL PERIOD

Total of training initiatives at the employer's expense	Codes	Men	Codes	Women
1. Number of employees	5801	4,108	5811	3,524
2. Number of training hours	5802	105,787	5812	106,596
3. Charges to enterprise *(in thousands of EUR)*	5803	12,057	5813	9,143

V. INFORMATION ON TRAINING, GUIDANCE, OR MENTORING ACTIVITIES OF EMPLOYEES IN IMPLEMENTATION OF THE LAW OF 5 SEPTEMBER 2001 FOR THE IMPROVEMENT OF THE DEGREE OF EMPLOYMENT OF EMPLOYEES

	Codes	Men	Codes	Women
1. Number of employees who performed these activities	5804	171	5814	71
2. Number of hours spent on these activities	5805	5,593	5815	1,704
3. Number of employees who benefited from these activities	5806	4,312	5816	3,753

(*) Financial benefit to the employer regarding the iindividual entitled or substitute

Valuation Rules - KBC Bank NV

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 annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

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

Amounts receivable arising from advances and 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 recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans 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 recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised 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.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the bank's own loan receivables are booked as guarantees given or received. Transactions relating to the trading book are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

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

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

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the CBFA. 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.

Amounts provisioned for country risks are broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate.

SECURITIES

Securities are recognised 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, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost. Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

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

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

Software developed in-house is charged immediately to the profit and loss account. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Exploitatie NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

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. All tangible fixed assets are depreciated on an accruals basis during the first year of investment. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately 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 that 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.

CREDITORS

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

PROVISIONS FOR LIABILITIES & CHARGES

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

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

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

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36 bis of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

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

the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

the transaction must be recorded in the books as a hedge from its inception;
there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

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

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

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

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

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

3. Changes in valuation rules

There were no changes to the valuation rules with a material impact on the figures.

COMMENTS ON THE NON-CONSOLIDATED ANNUAL ACCOUNTS OF KBC BANK NV - 2007

PROFIT AND LOSS ACCOUNT - NV ('000 EUR)	2007	2006	change	in %
Gross income from ordinary activities	3.476.047	3.195.187	280.860	8,79%
General administrative expenses	-1.643.938	-1.550.160	-93.778	6,05%
OPERATING RESULT	**1.832.109**	**1.645.027**	**187.082**	**11,37%**
Write-downs and provisions	-2.010	14.652	-16.662	...
PROFIT FROM ORDINARY ACTIVITIES	**1.830.099**	**1.659.678**	**170.420**	**10,27%**
Extraordinary result	56.272	110.189	-53.917	-48,93%
Income taxes	-196.967	-279.098	82.131	-29,43%
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**1.689.404**	**1.490.769**	**198.635**	**13,32%**

Profit for financial year 2007 TO BE APPROPRIATED was up 199 million euros to 1 689 million euros.

Gross income came to 3 476 million euros, an 8.79% increase on 2006. Of this increase, 283 million euros were accounted for by dividend income, while the 118-million-euro drop in net interest earnings was offset by the 55-million-euro increase in income from financial transactions and the 61-million-euro rise in net commission and other operating income.

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up in 2007 by 94 million euros or 6.1%, to 1 644 million euros. The increase was accounted for mainly by other administrative expenses (73 million euros or 11.92%) and to a less extent by staff charges (13 million euros or 1.57%).

On balance, the operating result went up by 187 million euros or 11.37%. Taking into account the limited net transfer to write-downs and provisions (2 million euros) in 2007, compared with a net reversal of 15 million euros in 2006, profit from ordinary activities went up compared to last year by 170 million euros to 1 830 million euros (+10.27%).

The extraordinary result fell from 110 million euros to 56 million euros, principally as a result of provisions set aside for financial fixed assets.

Income taxes went down by 82 million euros to 197 million euros, owing to the decline in taxable profit.

GROSS INCOME FROM ORDINARY ACTIVITIES

Gross income comprises net interest income, dividends received, earnings on financial transactions, other commission and operating income (headings I through VI and XIV).

The 8.79% increase in gross income to 3 476 million euros is the result of:

- the 283-million-euro increase in income from variable-yield securities (heading III.). At most of the subsidiaries, the dividend payout ratio for 2007 was increased under KBC group's 2006-2009 share buyback programme.

- The 118-million-euro decline in net interest income (headings I. and II.), accounted for mainly by the mounting cost of funding investments in new acquisitions.
  Net interest income as a percentage of gross income from ordinary activities fell from 44.30% to 37.32%.
- Profit from financial transactions went up by 55 million euros, or 31.13%. The high level of capital gains realised on variable-yield securities resulting primarily from the sale of Intesa San Paolo shares for an amount of 207 million euros at the start of 2007 was largely offset by the 133 million euros in losses on the sale of long-term bonds (due mainly to positions being scaled down, given the anticipated trend in interest rates).
- Net commission and other operating income (headings IV, V and XIV) went up by 61 million euros or 7.65%. This increase can be put down in part to the higher commission from sales of investment funds.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up by 94 million euros or 6.05% compared with 2006.

Operating charges (headings VII. and XV.) were up 78 million euros or 11.35%, chiefly on account of higher amounts being billed via the cost-sharing structure due to a shift in activities (see personnel charges), higher automation expenses and an increase in fees (relating to acquisitions, etc.).

Depreciation charges (heading VIII.) were up 3 million euros or by 5.34%.

At KBC Bank Belgium, staff charges levelled off. This was the resultant of the decline in the number of full-time equivalents owing to personnel being shifted to KBC Group, as well as of negative factors, such as indexation (1.69%) and other pay increases. In the branches abroad, a 13-million-euro increase was recognised owing to an increase in the workforce and higher result-based bonuses.

The cost/income ratio fell from 48.52% in 2006 to 47.29% in 2007.

WRITE-DOWNS AND PROVISIONS

Total transfers to and from write-downs and provisions (headings IX through XIII, inclusive) resulted in 2007 in limited net provisioning of 2 million euros. In 2006, there had been a net reversal of 15 million euros.

Total write-downs on and provisions for credit risks (headings IX and X) went from a 3-million-euro reversal in 2006 to net provisioning of 39 million euros in 2007. This can be put down mainly to a new method for calculating general provisions (IBNR), which resulted in 61 million euros being set aside. In 2006, 4 million euros in impairment losses on securities were reversed, whereas in 2007, write-downs of 7 million euros were recognised.

In both 2007 and 2006, more was transferred from provisions and used (heading XI) than transferred to them (heading XII).

The net surplus of 44 million euros recorded in 2007 between transfers from provisions and provisions used was due mainly to the closure of the 52-million-euro provision for miscellaneous expenses and future expenditure. This was offset to some extent by provisioning for legal and tax disputes.
The 8-million-euro surplus recognised in 2006 stems from a positive balance for personnel-related provisions, which was also offset to some extent by provisioning for legal and tax disputes.

EXTRAORDINARY INCOME AND CHARGES

In 2007, extraordinary profit came to 56 million euros, 54 million euros less than in 2006, due mainly to lasting impairment losses being recognised on financial fixed assets in 2007. Gains realised on financial fixed assets ended both 2006 and 2007 at 115 million euros.

INCOME TAXES

Income taxes (heading XX) went down by 82 million euros to 197 million euros, mainly because of the lower taxable profit of KBC Bank Belgium. For an overview of taxation, please see Table XXVI in the Notes.

ASSETS / LIABILITIES

BALANCE SHEET TOTAL

At year-end 2007, total assets came to 219.6 billion euros, an increase of 36 billion euros or 19.64 % on the year-end figure for 2006. On the assets side of the balance sheet, nearly all items were up, with the exception of bonds and other fixed-income securities and shares. On the liabilities side, amounts owed to credit institutions and amounts owed to customers were the main headings that went up.

At the end of 2007, amounts receivable from abroad accounted for 59.97 % of the balance sheet total (58.35% at the end of 2006). The branches abroad held around 19.43 % of the bank's total assets, up 0.37 % year-on-year.

TRANSACTIONS WITH CREDIT INSTITUTIONS

Loans and advances to banks (asset heading III) went up by 20.3 billion euros. Approximately 44 % of this heading is accounted for by reverse repos. Time deposit accounts went up in 2007 by 8.1 billion euros, while repo transactions rose by 7.1 billion euros. Amounts owed to credit institutions (liabilities heading I) also rose by 15.6 billion euros.
Accordingly, net borrowing from credit institutions came to 13.5 billion euros at the end of the financial year, compared with 18.2 billion euros a year earlier. The net volume outstanding depends on the liquidity requirements of the bank.

LOANS AND ADVANCES TO CUSTOMERS

Asset heading IV, 'Loans and advances to customers', includes not only payment credit granted by the bank, but also securities for collection and balances on suspense accounts. Of the amount outstanding, 71.3 % is denominated in euros, while 55.20 % represents exposure to Belgian counterparties.

Payment credit went up by 16.8 billion euros to 99.6 billion euros. The increase is due to the 16.6-billion-euro increase in term loans.

In July 2007, a new securitisation operation involving home loans was carried out for an amount of 3.8 billion euros.

FIXED-INCOME SECURITIES

The total portfolio of fixed-income securities (asset headings II and V) fell by 9.5 billion euros to 33.4 billion euros. Securities issued by public authorities represented 64.98% of the portfolio and those issued by credit institutions 17.29%.

The investment portfolio decreased by 11.4 billion euros to 22.2 billion euros. The portfolio consists mainly of Belgian and EMU government issues. At year-end 2007, there was an unrealised loss on the investment portfolio of fixed-income securities of 169 million euros.
The trading book, consisting mainly of government securities and securities issued by credit institutions, grew in 2007 by 2 billion euros to 11.2 billion euros.

SHARES AND OTHER VARIABLE-YIELD SECURITIES

Asset heading VI, 'Shares and other variable-yield securities' came to 449.8 million euros, compared with 721 million euros at the close of 2006. The trading portfolio went down by 271 million euros.

FINANCIAL FIXED ASSETS

Participating interests, other shares and subordinated loans constituting financial fixed assets (heading VII) went up by 7.2 billion euros to 16.2 billion euros.
The main additional investments made were in the following associated companies:
the stake in IIB Bank Ltd. was upped by 118 million euros, and the investment in CSOB by 396 million euros.
New investments were made in KBC Credit Investments to the tune of 5 billion euros, in Absolut Bank of 698 million euros and in ElBank of 297 million euros.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

Asset heading VIII, 'Formation expenses and intangible fixed assets', is made up solely of intangible fixed assets.

TANGIBLE FIXED ASSETS

Asset heading IX went up by 19 million euros to 770 million euros. This was accounted for by the increase in real estate activities.

OTHER ASSETS

These went up by 526 million euros to 1.8 billion euros. This increase can be put down to the revaluation of trading interest rate options, which are very volatile.

ACCRUALS AND DEFERRALS

Deferred charges and accrued income are recorded under asset heading XII.
They went up by 767 million euros to 15.4 billion euros.

AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES

Customer deposits, including those represented by securities, are recognised under liabilities headings II and III. These are liabilities ensuing on the attraction of working funds from customers (this includes discounting, repurchase agreements and secured advances), as well as credit balances on suspense accounts and the short position in the trading portfolio.

Total customer deposits went up by 16.1 billion euros to 118.6 billion euros at year-end 2007. Most products contributed to this increase with the exception of customer savings certificates, which remained unchanged. Savings deposits were 2.2 billion euros lower.

OTHER LIABILITIES

Other liabilities (heading IV) include liabilities relating to options premiums paid, taxation, remuneration and social security charges. This heading also includes dividends to be paid on treasury shares and invoices yet to be paid by the bank. There was an increase of 0.2 billion euros compared with financial year 2006.
For an overview, please see Table XIV in the Notes.

ACCRUALS AND DEFERRALS

Accrued charges and deferred income are recorded under liabilities heading V.
There was an increase of 1.6 billion euros compared with financial year 2006.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges (liabilities heading VI.A) fell in 2007 by 22.3 million euros to 236.1 million euros. This decline was accounted for mainly by the provision for end-of-career schemes (18 million euros). For more information on transfers to and from provisions, please see the comments on the profit and loss account.

SUBORDINATED LIABILITIES

A breakdown by type and remaining term to maturity for liabilities heading VIII is shown in Table XVII in the Notes. Total subordinated liabilities outstanding went up by 1 billion euros to 7.6 billion euros. This figure can be broken down as follows:
- convertible bonds: 0.2 billion euros
- non-convertible bonds: 4.7 billion euros
- other term borrowings: 2.7 billion euros.

This increase stems from relatively brisk sales of subordinated certificates and time deposit accounts in the branch network. Although there is no immediate need for additional tier-2 capital, it was nevertheless decided to place subordinated securities in the market. The funding cost is comparable to that for senior bonds.

CAPITAL AND RESERVES

Capital and reserves went up in 2007 by 1 547 million euros to 9 003 million euros, following a capital increase on 28 September 2007.

OFF-BALANCE-SHEET HEADINGS

CONTINGENT LIABILITIES

Off-balance-sheet items carrying an actual credit risk went up by 7 billion euros to 40.9 billion euros.
This increase is accounted for by 'other guarantees' (4.5 billion euros) and relates primarily to guarantees the bank has extended to holders of financial instruments issued by subsidiaries (e.g., to finance companies for the issue of international bond loans). These are included under heading I.C. Guarantees given that are in the nature of direct credit substitutes (heading I.B) also went up by 2.3 billion euros year-on-year.

COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

The undrawn margin on confirmed credit lines (heading II.C.) fell by 582 million euros to 38.3 billion euros, owing to decreased utilisation of the credit lines.

ANNEX 3

Audited Consolidated Annual Financial Statements 31 December 2008

The audited consolidated annual financial statements of KBC Bank NV and its consolidated subsidiaries for the financial year ended 31 December 2008 together with the related auditors' report.

KBC Bank

Annual Report 2008

KBC

To the reader

Company name

Everywhere where mention is made of KBC, the group or KBC Bank in this annual report, the consolidated bank entity is meant, i.e. KBC Bank NV, including all its subsidiaries and sub-subsidiaries. Where KBC Bank NV is used, this refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank. The information in the last section ('Company annual accounts') relates solely to the non-consolidated entity.

Difference between KBC Bank and KBC Group

The KBC group was created on 2 March 2005 through the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij. The schematic shows the group's legal structure, which has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB). KBC Group shares are traded on NYSE Euronext Brussels and the Luxembourg Stock Exchange. All KBC Bank shares are owned (directly and indirectly) by KBC Group. A number of KBC Bank's debt instruments are exchange-listed.

Forward-looking statements

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

Glossary of ratios used

CAD ratio: [consolidated regulatory capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

Cover ratio: [individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.

Cost/income ratio: [operating expenses] / [total income].

Credit cost ratio: [net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section.

Non-performing ratio: [amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].

Tier-1 ratio: [consolidated tier-1 capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

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KBC Bank profile

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Shareholders

Shareholders, 31-12-2008	Number of shares
KBC Group	582 917 642
KBC Insurance	1
Total	582 917 643

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches, 31-12-2008	
Belgium	879
Central & Eastern Europe and Russia	1 411
Number of staff (2008 average in FTEs)	43 784

Financial calendar

Financial communication is organised at KBC group level. The General Meeting of Shareholders of KBC Bank is held on 29 April 2009. KBC Bank's annual report will be available on 9 April 2009.

Financial calendar, KBC group

2008 financial year	Earnings release: 12 February 2009
	Publication of the embedded value in the life insurance business: 2 April 2009
	Annual Report, Corporate Social Responsibility Report and Risk Report for 2008 available: 9 April 2009
	AGM: 30 April 2009
1Q 2009	Earnings release: 14 May 2009
2Q 2009	Earnings release: 6 August 2009
3Q 2009	Earnings release: 13 November 2009
4Q 2009	Earnings release: 11 February 2010

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

Long-term credit ratings

Long-term credit ratings, 18 March 2009	
Fitch	A+ (negative outlook)
Moody's	Aa3 (negative outlook)
Standard & Poor's	A (stable outlook)

Main developments in 2008 and in the opening months of 2009: in February 2008, Moody's revised the ratings outlook from 'stable' to 'negative' • in October 2008, Standard & Poor's and Fitch placed the bank's rating on 'negative watch' • in November 2008, Standard & Poor's lowered the rating by one notch • in December 2008, Fitch lowered the rating by one notch • in January 2009, Moody's lowered the rating by one notch • in March 2009, Standard & Poor's lowered the rating by one notch.

Key financial figures

Key financial figures at group level, IFRS	2007	2008
Balance sheet, end of period (in millions of EUR)		
Total assets	309 476	318 550
Loans and advances to customers	146 710	156 163
Securities	80 438	71 880
Deposits from customers and debt securities	182 567	190 153
Parent shareholders' equity	12 342	10 728
Income statement (in millions of EUR)		
Total income	7 576	4 349
Operating expenses	-4 140	-4 411
Impairment	-212	-1 439
Profit after tax, group share	2 261	-1 521
Solvency		
Tier-1 ratio, KBC Bank (Basel II)	8.5%	9.6%/*pro forma* 11.2%*
CAD ratio, KBC Bank (Basel II)	12.2%	13.2%/*pro forma* 14.7%*

* *Pro forma*: including the capital-strengthening transaction with the Flemish Regional Government for 2 billion euros in January 2009.

Review of the consolidated annual accounts

Overview of the consolidated income statement

Income statement, KBC Bank (consolidated, IFRS-compliant, in millions of EUR)	2007	2008
Net interest income	3 179	4 020
Dividend income	126	131
Net (un)realised gains from financial instruments at fair value through profit or loss	1 768	-2 100
Net realised gains from available-for-sale assets	189	-11
Net fee and commission income	1 897	1 769
Other net income	416	538
Total income	7 576	4 349
Operating expenses	-4 140	-4 411
Impairment	-212	-1 439
on loans and receivables	-148	-760
on available-for-sale assets	-50	-613
Share in the result of associated companies	59	2
Profit before tax	3 283	-1 500
Income tax expense	-750	216
Net post-tax income from discontinued operations	0	0
Profit after tax	2 534	-1 283
attributable to minority interests	273	238
attributable to equity holders of the parent	2 261	-1 521

Analysis of the income statement

Net interest income came to 4 020 million euros in 2008. If items such as trading-related interest income are excluded, and the interest income related to certain ALM hedging derivatives included[1], commercial net interest income rose by 8% compared with the previous year. Besides the impact of new acquisitions and exchange differences, this increase was also partly due to the higher volume of loans and deposits, especially so in Central & Eastern Europe and Russia (where loans were up 25% and deposits 8%, even disregarding the positive impact of new acquisitions and exchange rate fluctuations), but there was a notable rise in deposits in Belgium (up 6%), too. Moreover, the average net interest margin widened by 12 basis points in Central and Eastern Europe. On the other hand, the higher rate of interest paid on deposits had a negative impact in Belgium, more particularly the increase in the base rate paid on savings deposits from 1 July 2008. For the bank as a whole, the net interest margin narrowed by 8 basis points to 1.67%.

Net (un)realised gains from financial instruments at fair value through profit or loss came to a negative 2 100 million euros, compared with a positive 1 768 million euros in 2007. Although the 2008 figures were favourably affected by changes in the fair value of own debt instruments (+0.4 billion euros), they were adversely impacted by the one-off loss stemming from the discontinuation of certain derivative trading activities at KBC Financial Products (-0.2 billion euros) and higher value markdowns on the CDOs held in portfolio. In 2007, the downward adjustment in the market value of CDOs amounted to -0.1 billion euros before tax. This was almost -2.5 billion euros in 2008, owing to the downgrading of CDO tranches, increased counterparty exposure to monoline insurers and wider credit spreads. KBC also acted proactively and fully wrote down the value of all mezzanine CDO notes (i.e. all CDO notes with the exception of the super senior tranches) of CDOs originated by KBC Financial Products, so that fluctuations in the value of these notes would no longer affect future results.
Whereas many competitors charge these markdowns to equity – without this having any impact on their net earnings – most of the losses recorded at KBC have a direct impact on net earnings. This is due to the fact that, unlike the situation at many sector peers, the CDOs held in portfolio at KBC comprise few ‘physical bonds’, but rather derivatives. In accordance with prevailing accounting rules, movements in the value of such derivatives are recorded in the income statement.

[1] In the IFRS figures, many of the ALM hedging instruments (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently, interest relating to these instruments appears under ‘Net gains from financial instruments at fair value’, whereas interest relating to the underlying assets appears under ‘Net interest income’. When calculating the change in net interest income, the interest on the relevant ALM hedging instruments is therefore recorded under 'Net interest income'.

More information on the portfolio of structured investments (CDOs and other asset backed securities) is provided in KBC's *Risk Report*, which is available at www.kbc.com.

Net realised gains from available-for-sale assets (*realised gains*) came to -11 million euros in 2008, compared with +189 million euros in 2007. This decline was largely attributable to the sharp fall in stock market prices.

Net fee and commission income amounted to 1 769 million euros in 2008, 7% less than the year-earlier figure. The trend in net fee and commission income cannot be separated from the financial and stock market crisis, which prompted investors to turn their backs on investment funds and to opt instead for traditional deposit products.

Dividend income totalled 131 million euros, in line with the previous year (126 million euros).

Other net income amounted to 538 million euros, up 122 million euros on the figure for 2007. This heading includes a number of rather large exceptional items. The main ones in 2007 and 2008 were the capital gain on the sale GBC, a bank card clearing house in Hungary (35 million euros in 2007), a refund from the Belgian deposit protection scheme (44 million euros in 2007), the revaluation gain on the participating interest in Nova Ljubljanska banka in Slovenia following a capital increase (54 million euros in 2008), and the capital gain realised on the sale of the stake in the Prague Stock Exchange (40 million euros in 2008).

At first glance, operating expenses for 2008 (4 411 million euros) were around 7% higher than the year-earlier figure. However, disregarding the impact of exchange rate fluctuations and new acquisitions, costs remained more or less the same as the previous year. The positive effect of lower variable employee remuneration was partly cancelled out by inflation, costs associated with the expansion of the branch network in Central and Eastern Europe, and various one-off items such as restructuring provisions and early retirement provisions. Given the uncertainty on the financial markets and the deteriorating economic situation, the group also announced at the end of 2008 that it would be taking measures to reduce the cost base even more, while ensuring that the main income flows would not be undermined. These measures include a recruitment freeze throughout the group, a review of variable pay components in Belgium, a reduction in the number of people employed in the investment banking and private banking divisions and – more generally – a thorough evaluation of all operations outside the home markets of Belgium and Central and Eastern Europe, an exercise to ascertain whether or not these operations belong to KBC's core activities, generate sufficient return or use up too much capital.

In 2008, impairment *on loans and receivables* amounted to 760 million euros, a significant increase on the 148 million euros recorded in 2007. This was a clear reflection of the worsening economic climate and had a particularly marked impact on the merchant banking business (mainly business credit abroad) and also to a certain extent on activities in Central and Eastern Europe. On the other hand, the Belgian retail business still had extremely low levels of loan losses.

Impairment on *available-for-sale assets* (613 million euros) includes value markdowns on shares and bonds in the investment portfolio. Markdowns on shares came to 290 million euros in 2008 (42 million euros in 2007). Write-downs on bonds rose from 8 million euros to 323 million euros, an increase chiefly accounted for by troubled banks in the US and Iceland.

The credit cost ratio (which includes impairment on loans and on corporate and bank bonds) went up from an exceptionally low 11 basis points in 2007 to 62 basis points in 2008. Since loan losses lag the general economic cycle to a certain extent, KBC has taken account of this ratio increasing further in the year ahead. The credit cost ratio came to 9 basis points for the Belgian retail business (13 basis points in 2007), to 81 basis points for the activities in Central & Eastern Europe and Russia (26 basis points in 2007), and to 90 basis points for the merchant banking business (2 basis points in 2007).

On average, loan quality remained relatively good in 2008, as illustrated, for instance, by the non-performing-loan ratio, which amounted to 1.7%, compared with 1.5% at the end of 2007. Given that a lag effect exists here, too, this ratio could deteriorate in the future. At year-end 2008, the percentage of cover for non-performing loans afforded by (all) loan loss provisions came to 93%.

Most of the other impairment charges relate to restructuring in the investment banking division and includes an amount of 19 million euros in relation to goodwill (zero in 2007) and 48 million euros in relation to other assets (14 million euros in 2007).

The share in the results of associated companies came to 2 million euros in 2008. Income tax expense amounted to a *positive* 216 million euros, which was of course due to the *negative* result before tax. Profit after tax attributable to minority interests totalled 238 million euros, in line with the year-earlier figure (273 million euros).

The main changes to the scope of consolidation in 2008 are given in Note 36 in the 'Consolidated annual accounts' section. The overall impact on the net result of these changes and of the main exchange rate movements was limited to roughly +90 million euros on a net result of -1 283 million euros.

Analysis of the balance sheet and solvency

At the end of 2008, total assets came to 319 billion euros, a slight increase (+3%) on the previous year.

As in 2007, loans and advances to customers (156 billion euros at the end of 2008) and securities (72 billion euros) were the main products on the asset side of the balance sheet. Loans and advances to customers (not including the volume of reverse repurchase agreements) were up 9% on the end of 2007, with the biggest increase in Central & Eastern Europe and Russia (+25%). The main credit products were term loans (78 billion euros) and home loans (55 billion euros).

Customer deposits grew by 5% (excluding the volume of repurchase agreements) to 190 billion euros, with time deposits (67 billion euros), demand deposits (40 billion euros) and savings deposits (29 billion euros) the main products in this category.

At year-end 2008, investment funds managed by KBC (funds do not appear on the balance sheet, but afford customers an alternative to, for instance, traditional bank deposits, which do appear on the balance sheet) came to 77 billion euros. Total assets under management (which, aside from investment funds, also include the assets managed for private and institutional investors) amounted to 163 billion euros, down 8% on the year-earlier figure, owing mainly to the sharp fall in the value of the assets themselves.

On 31 December 2008, parent shareholders' equity came to 10.7 billion euros. The main changes in equity compared with year-end 2007 relate to the inclusion of the net result for the financial year (-1.5 billion euros), the dividends for 2007 that were paid out in 2008 (-0.9 billion euros), the change in the revaluation reserve for available-for-sale assets (-0.8 billion euros), and the impact of the measures agreed with the Belgian State in October 2008 to strengthen the group's capital base (2.25 billion euros).

Underpinned by this transaction with the government, the solvency position at the end of 2008 was reflected in a tier-1 ratio for the banking activities of 9.6% (under Basel II). Including the impact of the second operation to strengthen the group's capital base (for 2 billion euros), which was concluded with the Flemish Regional Government in mid-January 2009, the *pro-forma* tier-1 ratio stood at 11.2% at year-end 2008.

Main events

Main events in retail & private bancassurance in Belgium

Facts and figures, retail & private bancassurance in Belgium	2007	2008
Customers (estimates)		
Bank customers (in millions)	3.4	3.5
Network		
Retail bank branches, KBC Bank and CBC Banque*	830	826
Private banking branches, KBC Bank and CBC Banque	25	26
Bank agencies, Centea	712	696
Assets under management (in billions of EUR)		
Investment funds for private individuals	79.9	68.9
Assets managed for private individuals	40.8	34.3
Assets managed for institutional investors	24.7	29.4
Group assets managed by KBC Asset Management	17.2	18.5
Total	162.5	151.0
Market share (estimates)		
Loans	22%	23%
Deposits	19%	20%
Investment funds	35%	37%
Cross-selling indicators		
Life insurance sold via the bank channel	77%	79%
Non-life insurance sold via the bank channel	15%	17%
E-payments indicators – Belgium		
Percentage of payment transactions via electronic channels	93%	94%
Number of KBC- and CBC-Matic ATMs	1 277	1 272
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	3.9 million	4.0 million
Active subscribers to KBC Internet and PC banking facilities	580 000	675 000
Customer satisfaction		
Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10)	72%	70%
Loan portfolio		
Amount granted (in billions of EUR)	58	62

* Excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the section on merchant banking. Including branches catering for the social profit segment

Group approach to fierce competition in the savings account market in 2008

KBC Bank responded to market trends by raising the base rate on its savings accounts from 1.75% to 4% in July. This higher rate applied to balances of up to 40 000 euros on all KBC Savings Accounts held by private customers. When the European Central Bank slashed its official interest rates in a series of cuts in the autumn, economic logic required the group to follow suit, and so KBC lowered the savings interest rate again, together with the rates applying to other products, including home loans.
2008 was an extremely good year for the group in terms of deposit-taking, thanks in part to the higher base rate on savings accounts. In Belgium, customer deposits rose by a total of around 4.6 billion euros.

Favourable trend in customer satisfaction ratings

The group has always focused strongly on customers' experiences, which is why customer satisfaction is measured every year. The results of the 2008 survey remain encouraging. No less than 70% of customers were very satisfied with the service they received. In other words, they gave their branch a score of eight or more out of ten. That's broadly the same as the previous year's figure of 72%, and is actually eight percentage points higher than in 2004. Although the survey was carried out in the May-June period, the group continued to do well in terms of customer confidence in the months that followed. That was clear, for instance, from an external study carried out by the

organisation *Research Solution* into customers' confidence in their bank, which gave KBC the second highest rating of all the Belgian banks.

Furthermore, KBC Bank received the Belgian 'Bank of the Year 2008' award from *The Banker* magazine.

Change in customers' saving and investment behaviour triggered by the financial crisis

The impact of the crisis on investor behaviour made itself felt primarily in a shift between products. For example, sales of investment funds and unit-linked investment-type insurance (from the bank's sister company, KBC Insurance) were down, but this was offset by growth mainly in traditional bank deposit products. This trend was obviously attributable in part to the higher interest paid on these traditional products.

The group's share of the market increased slightly in 2008. The net inflow of deposits strengthened its share of the deposit market, which went up from 19% in 2007 to 20% in 2008. More specifically, KBC's market share for savings accounts came to just over 18%. Lastly, the share of the market in investment funds, which in the past few years has grown virtually without interruption, rose to no less than 37% in 2008 and means that KBC remains the leader in Belgium for this type of product.

Limited loan losses on the Belgian retail portfolio

Despite the deteriorating economic situation in 2008, KBC still turned in a very respectable performance in terms of loan losses in Belgium. The loan losses incurred on the Belgian retail portfolio remained extremely low, with a credit cost ratio of 0.09%, which even represents an improvement on the already very favourable 0.13% the group reported in 2007. Needless to say, KBC will remain vigilant – loan losses tend to lag the economic cycle somewhat – and account has to be taken of a downturn in this ratio in the near future.

New developments on the electronic bancassurance front

As part of the ongoing improvement of e-services, the KBC-Matic ATM network was further modernised in 2008 and the range of e-banking and e-insurance services offered via KBC-Online expanded once again with the addition of various new applications, including the new SEPA Credit Transfer and Zoomit functions. Zoomit allows users to view incoming invoices in electronic form and to pay them with just a few clicks of the mouse. The success of KBC's online bancassurance systems is reflected in the continuously rising number of users. At the end of 2008, KBC-Online, CBC-Online and Centea-Online had more than 675 000 active subscribers in total, 16% more than in the previous year.

What's more, since April 2008, KBC has been running an entirely new website for private customers in Belgium (www.kbc.be). The information and advisory sections of the site are structured around the customer's basic financial needs of savings and investments, loans, insurance and day-to-day banking and payments. At the same time, it is being developed as a fully fledged sales channel that is available 24 hours a day. A new website for young customers was also launched in 2008. It is structured around the key moments in the lives of this target group and covers such areas as higher education, graduation, a first salary and a place of one's own. These channels are intended to complement the group's network of bank branches in Belgium, which will naturally remain the cornerstone of our service provision.

A totally revamped corporate website – www.kbc.com – was also launched in 2008, where customers and investors can find all sorts of non-sales-related information about the KBC group. KBC opted for a clear and straightforward navigation structure and for a restrained layout. The information has been rearranged and set out in such a way to help users locate everything they want to know about the group faster and more efficiently. The global financial crisis has, after all, amply demonstrated the importance of openness and providing clear and up-to-date communication.

Further initiatives in the field of corporate social responsibility

Most of the group's attention has obviously been devoted to managing the consequences of the global crisis. Nevertheless, there has been no let-up in its efforts in the field of corporate social responsibility.

To give a few examples, KBC has been using 100% green energy since 1 March 2008. All of the group's companies in Belgium are now using this source of sustainable energy, which has had an immediate impact of reducing greenhouse gas emissions by an estimated 47%. The group is also continuing to work on reducing its energy consumption, and it has been decided that the Belgian operations must achieve a climate-neutral footprint by 2010. To meet that objective, a large number of projects – many of them suggested by KBC employees – have already been launched.

On 3 November, KBC and Umicore were jointly awarded the prize for 'Best Corporate Social Responsibility Report' in Belgium. This fine achievement is just recognition of the commitment of the entire KBC group to improve and render even more transparent its performance in the area of corporate social responsibility.

Objectives and focus for the years ahead

It is clear that 2009 is going to be a difficult year. Given that context and the fact that revenue levels will come under pressure, it makes sense to focus even more intensely on efficiency and keeping costs well under control, without of course undermining the group's commercial clout. To that end, an agreement on cost-saving measures has been signed with the social partners. It deals with a number of areas, including a review of variable pay components.
As a financial institution, the group also needs to find a healthy balance between margins on savings and loans, so that its core function of providing financial intermediation services is reasonably compensated.
Lastly, great care will be taken to ensure that customer and employee satisfaction remain the focus of attention. After all, these are the most important factors underpinning KBC's long-term growth and profitability.

Main events in Central & Eastern Europe and Russia

Facts and figures, Central & Eastern Europe and Russia, 31-12-2008	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Serbia*	Russia
Customers (estimates)							
In millions	3.0	0.4	0.9	1.0	0.3	0.1	0.2
Network							
Bank branches	309	167	256	401	139	65	74
Assets under management							
Total (in billions of EUR)	5.8	0.8	2.3	2.1	-	-	-
Market share (estimate)							
Traditional bank products (loans and deposits)	22%	10%	9%	4%	3%	0,7%	0,6%
Investment funds	34%	13%	22%	5%	–	–	–
E-payment indicators							
Number of proprietary ATMs	683	228	410	410	138	50	167
Active subscribers to Internet and PC banking facilities	560 000	65 000	90 000	200 000	2 000	2 000	12 000
Loan portfolio							
Amount granted (in billions of EUR)	24.2	5.1	8.6	8.4	0.8	0.1	3.9

* KBC Banka in Serbia is a subsidiary of KBC Bank's sister company, KBC Insurance.

Limited acquisition activity in Central and Eastern Europe in 2008

As announced, the group is not planning to make any more major acquisitions in the region in the foreseeable future on account of the current financial and economic situation. In fact, KBC had already decided in 2008 that it would be limiting itself to making relatively smaller, add-on acquisitions and achieving organic growth, primarily in countries where market share is less than the set target of 10%. The acquisition of Istrobanka for approximately 350 million euros at the start of 2008 fits in perfectly with that approach, as it enabled the group to considerably strengthen its position in the Slovakian banking market, where KBC was already present through ČSOB. The deal has increased KBC's share of the Slovakian market from 7% to roughly 10%, which is in line with its targets.

At the same time, work continued on structuring KBC's presence in the region. For instance, 2008 marked the spin-off of ČSOB's Slovakian activities, a move which should allow the group to adjust both its bancassurance concept and its general strategy to the specific conditions prevailing in Slovakia. The structured process to sell the 31% minority stake in Nova Ljubljanska banka in Slovenia was also started up, although the financial crisis has naturally slowed its implementation. In Serbia, A Banka (a subsidiary of KBC Insurance) changed its name to KBC Banka and continued to expand and modernise its product offering, systems and network. Economic and Investment Bank followed suit and changed its name to CIBANK on 1 January 2009. Overall, the group extended its branch network in the region by around 120 branches in 2008 (not including Istrobanka), meaning that the bulk of the branch-opening programme has now been completed.

Central and Eastern Europe and the financial crisis

For KBC, the situation regarding Central and Eastern Europe is as follows. First of all, the group's exposure to Central Europe is largely concentrated in the countries that have been most resilient to the financial crisis, i.e. the Czech Republic, Slovakia and Poland, which together account for three-quarters of the loan portfolio in the region. KBC owns Hungary's second-largest bank. However, the combination of IMF support measures and the fact that the group has pursued a prudent lending policy in recent years means that the Hungarian operations have continued to perform well. What's more, stress tests clearly indicate that KBC's exposure in terms of the foreign currency lending policy it pursues in that country is under control. The exposure to countries where the situation is less clear – the Balkan states and Russia – is limited to 10% of the group's Central European loan portfolio and accounts for just 2% of the group's total portfolio.

Growth forecasts for the economies of the Central and Eastern European countries in which KBC is present have been lowered, as they have for virtually every other country. These revised forecasts could, of course, impact the profit contribution of the group companies there. However, if the elements that relate specifically to the financial crisis are excluded, KBC is still convinced that the region will make an extremely sizeable contribution to group earnings.

Given the specific situation in Russia, KBC has decided to freeze growth of the risk-weighted exposure amount – the loan portfolio – and to monitor the portfolio even more strictly. In fact, throughout the region, credit growth has been restricted in the riskiest segments and sectors and the loan portfolio is being monitored more rigorously.

Robust growth of investment funds

Sales of investment funds remained buoyant, despite the financial crisis. So much so, in fact, that it's fair to say that, at the end of 2008, the group was the largest fund manager in the region comprising the Czech Republic, Slovakia, Hungary and Poland. To be more specific, our share of the investment fund market in the Czech Republic grew from 28% to 34%. In Slovakia, it rose from 12% to 13%, while in Hungary and Poland, it went up from 17% and 4% to 22% and 5%, respectively. Assets under management in the region now total roughly 12 billion euros.

More prestigious international prizes for the group

As in 2007, various group companies won a range of prestigious international prizes. For instance, the bank's Hungarian subsidiary K&H Bank was named 'Bank of the Year 2008' in Hungary by *The Banker*, just as KBC Bank was in Belgium. Meanwhile, *Global Finance* magazine chose ČSOB as its 'Best Bank in the Czech Republic', and Nova Ljubljanska banka won the equivalent prize for Slovenia.

The group's companies in Central and Eastern Europe also performed well in terms of corporate social responsibility. For instance, the new headquarters in the Czech Republic earned a LEED Gold certification for being one of the most ecologically friendly buildings in Europe. And KBC's Hungarian banking subsidiary was runner-up in the national heats of the European Energy Trophy. More about these achievements can be found in KBC's *Corporate Social Responsibility Report*, which is available at www.kbc.com.

Objectives and focus for the years ahead

As already stated, the Central and Eastern European region remains one of the group's most important drivers of growth, certainly in the longer term. What's more, the group's presence in the region is still one of the main foundations on which it builds its strategy. As such, KBC will focus on further consolidating its positions in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria, based on selective organic growth and a modest increase in its loan portfolio. As far as Russia is concerned, the group will maintain a conservative approach whilst the uncertain macroeconomic situation persists.
KBC will continue to set itself apart from its competitors through the ongoing development and refinement of the bancassurance concept in the region, particularly in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria. Moreover, it will keep focusing on the retail segment – private individuals and SMEs – and pay heightened attention to deposit-taking and the sale of products that offer protection of customers' assets, such as insurance and capital-protected asset management products. The group is also setting up a cost-control programme for the region as a whole and intensifying its focus on risk control, solvency and liquidity. Indeed, the cost-control and distribution strategies have both been drawn up with the entire region in mind.
As far as results are concerned, the emphasis will be on achieving sustainable earnings growth, based on above-average income, and keeping expenses in line with inflation and credit charges firmly under control.

Main events in merchant banking

Facts and figures, Merchant Banking	2007	2008
Customers (estimates)		
Corporate banking (Belgium)	19 000	19 000
Network		
KBC Bank corporate branches in Belgium, including branches catering for the social profit segment and CBC Banque *succursales*	29	27
KBC Bank branches in the rest of the world[1], including representative offices	36	33
Assets under management		
Total (in billions of EUR)	0.9[2]	0.04
Market share (estimate)		
Corporate lending (Belgium)	23%	23%
Loan portfolio		
Amount granted (in billions of EUR)	102	100

1 Excluding Central and Eastern Europe, relates solely to corporate branches of KBC Bank or its subsidiaries, KBC Bank Nederland, KBC Bank Deutschland and KBC Bank Ireland.
2 Restated figures.

Impact of the financial crisis on merchant banking results

Without any shadow of doubt, the financial crisis made itself felt most directly in the portfolio of structured products, whose value was marked down on account of wider credit spreads, increased counterparty exposure to monoline insurers and the rating downgrades of the CDO tranches in the investment portfolio. To safeguard its future results, the group also opted to take a proactive approach and mark down to zero all CDO notes it held, with the exception of the most secure category, the super senior tranches. Because the majority of the CDO notes held by the group are located in group companies active in merchant banking, these activities have been worst affected by the markdowns.

Merchant banking activities in 2008

The corporate banking operations in Belgium – which are conducted through the network of KBC and CBC corporate branches – actually did very well. Loan losses were generally limited, and the outstanding volume of business credit continued to grow in the first half of the year, before levelling off. This was a common trend in virtually all the market segments in which KBC operates, including project finance and finance for the diamond trade. There was even some growth in real estate services, factoring and reinsurance activities.

KBC Bank's dealing room also turned in a strong performance in terms of its currency dealing and bond trading activities in 2008. It goes without saying that the results linked to securities trading, private equity activities and corporate finance were not as good, with the corporate finance results weakening due to a virtual absence of IPO activity. The mergers and acquisitions business held up reasonably well. Central and Eastern European operations accounted for a notably larger proportion of earnings stemming from the stock brokerage and corporate finance businesses. Indeed, the lion's share of KBC Securities' net profit now comes from this region. Lastly, a number of specialised market activities relating to equity and credit derivatives – which are concentrated at the subsidiary, KBC Financial Products – generated a negative net result in 2008.

Measures to adapt merchant banking operations to the new market conditions

Given the exceptional market conditions, and as part of a general group-wide exercise, merchant banking operations have been thoroughly reviewed. One outcome of this has been the winding up of hedge fund manager, KBC Alternative Investment Management. And other specialised activities are also being run down, including those conducted by KBC Financial Products on the derivatives market (see above).

Additionally, all merchant banking activities related to equities trading, IPOs, mergers and acquisitions, convertible bonds, equity derivatives, etc., will now be grouped under KBC Securities. That will bring the operations of the subsidiaries, KBC Financial Products, KBC Peel Hunt and KBC Securities into a single structure.

Generally speaking, when it comes to allocating available resources, the group will give priority to its home markets of Belgium and Central Europe (primarily the Czech Republic, Slovakia, Hungary and Poland). A similar focus will be

given to its pure corporate finance activities, possibly at the expense of its lending activities in other markets, for example, lending to multinationals that are not linked to KBC's home markets.

Objectives and focus for the years ahead

The primary aim is to consolidate and, where possible, further strengthen the already very strong position in the Belgian corporate market. That means giving priority to the group's home markets when allocating the available resources. In the case of merchant banking, that is Belgium, where the intention is to step up lending to the bank's traditionally sound customers. Credit growth outside the group's home markets will therefore be limited and will depend more than ever on weighing up and evaluating the capital required and the profitability of each activity.

Main developments in corporate social responsibility

Corporate social responsibility (CSR) refers to a set of policies and guidelines that a company should abide by in order to enable it to operate as a responsible actor within society as a whole.

CSR is a long-term process which requires ongoing adaptation of and improvement in the way a company conducts its business, not only for the purpose of making a financial profit, but in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (employees, customers, shareholders, suppliers, etc.) and by society as a whole.
Indeed, CSR should be embedded in the various areas relating to the financial and non-financial activities of a bank, such as lending, investment, the environment, social policy (in terms of human rights and HR policy), corporate governance, business ethics and relations with customers, suppliers and other stakeholders.

KBC has incorporated all of these areas into a clear internal CSR policy framework, which is translated into a number of specific guidelines and commitments.

As a modern and international financial group, KBC fosters awareness of CSR and encourages relevant initiatives in all the countries in which it operates. Moreover, KBC's vision and achievements in the area of CSR are published separately in an annual *Corporate Social Responsibility Report* (CSR Report). This report provides group-wide information on CSR – including quantitative data on KBC staff and the group's ecological footprint – and is available at www.kbc.com.

Value and risk management

At KBC Group, a group-wide approach is taken to value and risk management, implying that the value and risk management of KBC Bank, as a subsidiary of KBC Group, is encompassed by this approach and inextricably linked to the value and risk management of other subsidiaries (such as KBC Insurance and KBP EPB). The section below focuses on the risk management of the banking activities.

Vision and principles

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

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

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

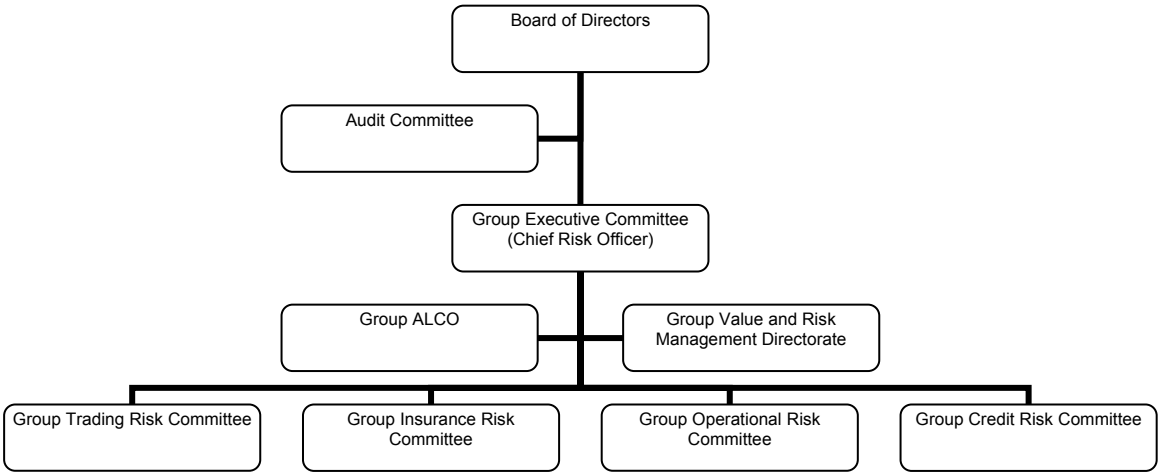
- the entire 'Vision and principles' section;
- the entire 'Risk governance model' section;
- parts of the 'Credit risk management' section, namely 'Description', 'Managing credit risk', the 'Loan portfolio' table (audited parts are indicated in the footnote to the tables) and the 'Other credit exposure' table;
- parts of the 'Asset/Liability management' section, namely 'Description', 'Managing ALM risk', 'Intererest rate risk' (except for the 'Impact of a parallel 1% increase in the yield curve for KBC Bank' table), Foreign exchange risk';
- the entire 'Liquidity risk management' section;
- the entire 'Market risk management' section;
- parts of the 'Solvency' section, namely 'Description', 'Managing solvency', the table in 'Solvency' (audited parts are indicated in the footnote to the table).

Risk governance model (KBC Group)

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

- The Board of Directors (assisted by the Audit Committee), the Group Executive Committee and the Group Asset/Liability Management Committee (ALCO). These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value, risk and capital management strategy defined by the Board of Directors and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive Committee, supervises risk management. The Group ALCO takes the investment and funding decisions and also monitors the relevant risk exposure. In 2008, the tactical investment decisions previously taken by the Group ALCO were entrusted to a newly established investment committee.
- *Specialised group risk committees*. These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various group committees are shown in the schematic.

  Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary), to roll out the risk management framework.
- The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.
- The Group Internal Audit division is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.
- Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.
- The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as validating staff is different from modelling staff.



Credit risk management

Description

Credit risk is the potential negative deviation from the expected value of a financial instrument consequent on non-payment or non-performance by a borrower (of a loan), an issuer (of a debt instrument), a guarantor or re-insurer, or a counterparty (to a professional transaction), due to that party's insolvency or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country.

Managing credit risk

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications (systems, tools) in place to identify and measure the risks before and after accepting individual credit exposures. Managing the risk at portfolio level encompasses inter alia periodic measuring of and reporting on risk embedded in the consolidated loan and investment portfolios, monitoring limit discipline, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk management at transactional level

Acceptance. Credit proposals are submitted in writing by a commercial entity. Unless a small amount or a low risk is involved, a loan adviser makes a recommendation. In principle, significant loan decisions are taken jointly by two or more managers. The level at which decisions should be taken is determined by matrices that take account of such parameters as the group risk total (the total risk run by the entire KBC group vis-à-vis the group the counterparty belongs to), the risk class (determined primarily on the basis of internally developed rating models) and the type of counterparty (financial institutions, sovereign entities, companies, etc.).

Lending to individuals (e.g., home loans) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. During 2008, there was a growing awareness of the inherent risk stemming from fluctuations in exchange rates, resulting in a significant tempering of foreign currency lending by year-end. A cautious approach has been adopted towards this particular type of lending for some considerable time, as reflected *inter alia* in an additional buffer (in terms of the loan-to-value ratio, net disposable income thresholds and shorter maturities) and close monitoring by means of stress tests. Moreover, if the remaining currency risk is still too high, it is hedged at group level.

Supervision and monitoring. Credit monitoring is determined primarily by the *risk class*, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults, the likelihood of which is estimated as the PD.

The 'normal' loan portfolio is split up into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD and – in a few buckets – for the LGD. Loans to large corporations are reviewed at least once a year, with the internal rating being updated, as a minimum. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). Moreover, a member of a credit committee will supervise decisions taken at the decision level immediately below, by checking whether the decision is consistent with lending policy. Loans to individuals are screened periodically at aggregate level for review purposes.
PD class 10 is for 'still performing' borrowers, i.e. borrowers with loans for which interest payments and principal repayments are not more than 90 days in arrears or overdrawn, but for which there is reason to believe that they are unlikely to pay (on time), for instance, because they are in arrears or overdrawn 45 or more days (but no more than 90 days).
Classes 11 and 12 are for 'non-performing' borrowers. Class 11 groups borrowers that are more than 90 days in arrears or overdrawn, while class 12 comprises borrowers whose credit has been cancelled or which are in danger of going bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Group Executive Committee every quarter.

Impairment. For credit granted to borrowers in PD classes 10, 11 and 12 (impaired loans), KBC records impairment losses based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a 'portfolio basis', using a formula based on the IRB Advanced models used internally (or an alternative method if an IRB Advanced model is not yet available).

A credit committee decides whether loans can be renegotiated in order to avoid a situation where an obligor facing financial difficulties ends up defaulting. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. In early 2009, KBC adopted a

new policy for such renegotiations and its method for evaluating the risk and hence the classification of the obligor. If a renegotiation stems from a deterioration in the obligor's financial situation and the payment terms are altered, a PD class 9 or higher will be assigned. The obligor's situation will then be re-assessed one year later and the obligor can return to a better class than PD 9 if the assessment turns out to be positive. In this case, the obligor is no longer considered as being in 'renegotiated status'. However, obligors involved in more than two subsequent renegotiations cannot return to a better class than PD 9 so soon.
In 2008, a limited percentage of exposure was renegotiated and avoided impairment. Taking into account a materiality threshold of 1% of the entity's outstanding portfolio, renegotiations occurred mostly at Absolut Bank, where an estimated 176 million euros was restructured, avoiding impairment.

Credit risk management at portfolio level

Monitoring is also conducted on a portfolio basis, *inter alia* by means of quarterly reports on the consolidated loan portfolio in order to ensure that lending policy and limits are being respected. The largest risk concentrations are, in addition, monitored via periodic and *ad hoc* reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Whereas some limits are still in notional terms, concepts (such as 'expected loss' and 'loss given default') are increasingly being used. The scope of monitoring in terms of name concentration has been widened over the past few years, enabling the credit risk stemming from lending, investment and derivatives activities to be captured. Moreover, stress tests are performed on certain types of credit (for instance, mortgages, loans provided to specific business sectors), as well as on the full scope of credit risk.

As part of the credit function, the portfolio management desk actively manages and monitors the loan portfolio. Using a model, this unit pinpoints risk concentrations and enhances the diversification of the loan portfolio.

Overview of the loan portfolio

The loan portfolio includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government securities in the investment books of the group's banking entities. It excludes government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions. The loan portfolio therefore differs significantly from 'Loans and advances to customers' in the 'Consolidated annual accounts' section, Note 14 (this item, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit or corporate and bank bonds, but does include repurchase transactions with non-banks).

The loan portfolio is broken down according to different criteria in the table.

Loan portfolio	31-12-2007	31-12-2008
Total loan portfolio (in billions of EUR)		
Amount granted	204.3	213.1
Amount outstanding	159.9	174.2
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium, retail and private banking	28.5%	28.9%
CEER	21.8%	24.0%
Merchant Banking (excluding CEER)	49.7%	47.0%
Total	100.0%	100.0%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)		
Loans	88.1%	87.9%
Guarantee credit	4.9%	5.7%
Corporate bonds	4.4%	4.1%
Bank bonds	2.7%	2.2%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[3]		
Private individuals	27.6%	30.6%
Financial and insurance services	13.9%	11.0%
Governments	3.7%	3.7%
Corporates	54.7%	54.7%
Non-financial services	9.6%	9.6%
Retail and wholesale trade	8.2%	8.2%
Real estate	6.7%	6.6%
Construction	4.1%	4.3%
Food industry	2.4%	2.9%
Chemical industry	2.4%	2.3%
Automobile industry	2.6%	2.1%
Metals	1.9%	1.9%
Agriculture, stock farming and fishing	1.9%	1.9%
Electricity	1.8%	1.7%
Other	13.1%	13.2%
Total	100.0%	100.0%
Loan portfolio breakdown by risk class (part of the portfolio[1], as a % of the portfolio of credit granted)[3]		
PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%)	24.9%	23.7%
PD 2 (0.10% – 0.20%)	14.6%	16.4%
PD 3 (0.20% – 0.40%)	13.7%	14.0%
PD 4 (0.40% – 0.80%)	16.6%	18.4%
PD 5 (0.80% – 1.60%)	17.3%	12.7%
PD 6 (1.60% – 3.20%)	6.8%	7.5%
PD 7 (3.20% – 6.40%)	4.0%	3.9%
PD 8 (6.40% – 12.80%)	1.5%	2.0%
PD 9 (highest risk, 12.80% – 100.00%)	0.6%	1.3%
Total	100.0%	100.0%
Impaired loans[2] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	3 310	4 821
Specific impairment	1 943	2 559
Portfolio-based impairment	185	262

Table continued on next page

Credit cost ratio		
Belgium, retail and private banking	0.13%	0.09%
CEER	0.26%	0.81%
Merchant Banking (excluding CEER)	0.02%	0.90%
Total	0.11%	0.62%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2 329	3 044
Specific impairment for non-performing loans	1 456	1 781
Non-performing ratio		
Belgium, retail and private banking	1.6%	1.7%
CEER	2.1%	2.1%
Merchant Banking (excluding CEER)	1.0%	1.6%
Total	1.5%	1.7%
Cover ratio		
Specific impairment for non-performing loans/outstanding non-performing loans	62.5%	58.5%
Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans	91.4%	92.7%

For a definition of the above ratios, see the 'Glossary of ratios used'.

1 Since some parts of the portfolio have not yet been broken down by risk class (in particular, the loan portfolio of Absolut Bank), they have been excluded.

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

3 Figures reviewed by the statutory auditor.

Other credit exposure

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

Short-term commercial transactions. This activity involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. Despite the relatively high proportion of non-investment-grade banks in this exposure (roughly 35%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). At KBC Financial Products (KBC FP), issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Only counterparty risk arising with net long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) is measured on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table (see the 'Investments in structured credit products' section).

Counterparty risk in interprofessional transactions (deposits with professional counterparties and derivatives trading). The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. Deposits account for slightly less than 20% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments is measured in terms of book value and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.4 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see the 'Asset/Liability management' section). Limits are in place for this type of credit exposure, as well, especially for governments with a lower than 'AA' internal rating.

Other credit exposure[1] in billions of EUR	31-12-2007	31-12-2008
Short-term commercial transactions	1.8	2.3
Issuer risk[2]	3.7	2.9
Counterparty risk in interprofessional transactions[3]	31.0	22.1
Government bonds in the investment portfolio	32.1	37.5

1 The 2007 figures do not include Absolut Bank and CIBANK, except those for 'Government bonds in the investment portfolio'. The 2008 figures include Absolut Bank.
2 Excluding OECD government bonds.
3 After deduction of collateral and netting benefits.

Internal credit risk models and Basel II

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

These models also form the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating Based (IRB) Approach.

The switch to the Basel II IRB approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over to the IRB Foundation approach in 2007. A number of other material group companies (K&H Bank, Kredyt Bank, Absolut Bank, Centea and the Antwerp Diamond Bank) switched to the Basel II standardised approach in 2008 and will adopt the IRB Foundation approach in 2009-2010 (subject to regulatory approval). In fact, Antwerp Diamond Bank obtained such approval in early 2009. The non-material entities of KBC adopted the Basel II standardised approach in 2008 and will continue to do so. Further moves to the IRB Advanced approach are envisaged, starting in 2011.

Investments in structured credit products

Aggregate information on KBC's investments in structured credit products (including a small position held for trading) is provided in the table. KBC's investments in these products include collateral debt obligations (CDOs) and other asset-backed securities (ABS). At the end of 2008, the total nominal amount (excluding the initial write-downs of junior and equity CDO pieces) of these investments was 15.2 billion euros, 8.7 billion euros of which in CDOs and 6.4 billion euros in other ABS.

With further adverse developments on the financial markets impacting KBC's investments in structured credit products, KBC decided to take firm action. On 22 January 2009, KBC decided to fully write down all non-super senior CDO notes in portfolio which had been originated by KBC FP. As a result, the total impact of the financial crisis on all structured products since the beginning of the crisis (mid-2007) came to 6.5 billion euros (including the initial write-downs of junior and equity CDO pieces), 5.0 billion euros of which was taken to profit or loss (P/L) and 1.5 billion euros recognised in equity. The effect of fair value adjustments to CDOs manifests itself predominantly through P/L, due to the fact that more than 95% of KBC's CDO are synthetic and classified as 'other assets at fair value through profit or loss' under IFRS.

KBC investments in structured credit products (CDOs and other ABS) in billions of EUR, KBC Bank, KBC Insurance and KBL EPB	31-12-2007	31-12-2008
Total nominal amount	17.0	15.9[1]
Initial write-downs of junior and equity CDO pieces[2]	-0.8	-0.8
Subtotal	16.2	15.2
Impact[3] since the beginning of the crisis (mid-2007 to date)	-0.3	-5.7
- impact recognised in P/L	-0.2	-4.2
- impact recognised directly in shareholders' equity	-0.1	-1.5

1 Year-on-year decrease due in part to sales of RMBS and amortisation.
2 The initial write-down of junior and equity CDO pieces had already been recognised through P/L when the CDOs were issued.
3 Includes further value markdowns on CDOs and ABS held in portfolio, and the financial impact of other measures, such as provisioning for monoline insurers.

The table shows a breakdown of the structured credit portfolio according to the rating of the notes held.

KBC Bank, KBC Insurance and KBL EPB	Super senior	Aaa	Aa	A	Baa	Ba	B	Caa	<=Caa3	Unrated	Total
Amounts at nominal value (net of Initial write-downs of junior and equity CDO pieces)											
CDO	5 386	323	322	204	736	574	267	684	166	66	8 726
Other ABS	N.a.	5 768	334	41	45	115	14	63	0	59	6 439
Total	5 386	6 090	656	245	781	689	281	747	166	125	15 166

N.a. = not applicable

Besides investing in CDOs for its own account, KBC also issued CDOs (through KBC Financial Products) and sold them on the market. To cover the risks, credit insurance in the form of super senior credit swaps was taken out with monoline insurers, primarily the US insurer, MBIA, whose creditworthiness has come under pressure. On 31 December 2008, KBC increased the provision for counterparty exposure to MBIA to 642 million euros (40% of the replacement value of the swap contracts). The total amount insured through MBIA (i.e. the notional value of the super senior swaps concluded with MBIA) came to 14 billion euros on 31 December 2008.

Further detailed information on KBC's investments in structured credit products and KBC's involvement in securitisation activities can be found in KBC's Risk Report, which is available at www.kbc.com. This report has not been audited by the statutory auditor.

Asset/Liability Management

Description

Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:

- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,
- inflation risk,
- credit risk (limited to the investment portfolios).

'*Structural exposure*' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by the group (banking and insurance). Trading activities are consequently not included.
Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad.

Managing ALM risk

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

A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM risk management. Similar teams exist at the subsidiaries outside the euro area.

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

The main building blocks of KBC's ALM framework are:

- a focus on '*economic value*' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity;
- the use of a uniform ALM measurement methodology for banking activities based on '*fair value models*' that forecast the behaviour of the value of a product group under different market scenarios and that are translated

into *replicating portfolios* (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk);

- the use of a Value-at-Risk (VAR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VAR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level (99% quantile) as a result of movements in interest rates and other fluctuations in market risk factors. Some risk parameters (i.e. inflation estimates and real-estate-risk estimates, correlations linked to these risk categories) are based on expert opinion;
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities;
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- The VAR is supplemented by other risk measurement methods such as BPV, notional amounts, economic value etc.

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

KBC Bank ALM risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)* In billions of EUR	31-12-2007	31-12-2008
Interest rate risk	0.65	1.57
Equity risk	0.20	0.18
Real estate risk	0.03	0.03
Other risks	0.01	-0.03
Total diversified VAR (group)	0.91	1.75

* The figures for 2007 exclude Absolut Bank and a number of small group entities. The figures for 2008 include Absolut Bank and a number of small group entities.

Interest rate risk

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

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

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

The table shows how the bank's exposure to interest rate risk developed over the course of 2007 and 2008. Interest rate expectations for 2009 onwards changed during the year and a tactical position was opened to capitalise on this development, thus resulting in a higher interest rate risk position.

BPV of the ALM book, KBC Bank* In millions of EUR	
Average, 1 Q 2007	70
Average, 2 Q 2007	54
Average, 3 Q 2007	41
Average, 4 Q 2007	41
31-12-2007	43
Maximum in 2007	74
Minimum in 2007	37
Average, 1 Q 2008	54
Average, 2 Q 2008	70
Average, 3 Q 2008	72
Average, 4 Q2008	72
31-12-2008	79
Maximum in 2008	79
Minimum in 2008	43

* The 2007 figures exclude Absolut Bank and a number of small group entities. The 2008 figures include Absolut Bank, but still exclude a number of small group entities.

In keeping with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against capital and reserves. At the level of the KBC Bank group, this risk came to 7% at year-end 2008 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which leads to a higher regulatory capital charge).

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

Interest sensitivity gap of the ALM book (including derivatives), KBC group banks
In millions of EUR

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2007*								
Cash inflows	35 952	17 181	30 396	63 168	31 162	16 179	20 803	214 841
Cash outflows	54 404	20 438	29 984	58 513	20 907	7 041	23 553	214 841
Derivatives (interest-linked)	11 498	6 843	9	-6 266	-6 158	-5 926	-	-
Interest sensitivity gap	-6 954	3 586	420	-1 611	4 097	3 212	-2 750	-
31-12-2008								
Cash inflows	52 148	28 046	29 188	71 987	38 112	21 745	5 268	246 493
Cash outflows	69 949	36 237	33 338	61 966	23 013	8 707	13 284	246 493
Derivatives (interest-linked)	18 139	10 626	522	-14 425	-6 854	-8 008	-	-
Interest sensitivity gap	338	2 435	-3 627	-4 404	8 245	5 030	-8 016	0

* The 2007 figures exclude CIBANK and a number of small group entities. The 2008 figures include CIBANK but still exclude a number of small group entities.

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

Impact of a parallel 1% increase in the yield curve for KBC Bank[1]
In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value[2]	
	2007	2008	2007	2008
Total	60	37	459	827

1 The 2007 figures exclude Absolut Bank and a number of small group entities. The 2008 figures include Absolut Bank but still exclude a number of small group entities.
2 Full market value, regardless of accounting classification or impairment rules.

Equity risk

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

Impact of a 12.5% drop in the equity markets [1,2]
In millions of EUR

	Impact on net profit (IFRS)		Impact on IFRS equity (after tax)	
	2007	2008	2007	2008
Total	-53	-39	-20	-10

Impact of a 25% drop in the equity markets [2,3]
In millions of EUR

	Impact on net profit (IFRS)		Impact on IFRS equity (after tax)	
	2007	2008	2007	2008
Total	-	-77	-	-22

1 The 2007 figures exclude Absolut Bank and a number of small group entities.
2 The 2008 figures include Absolut Bank but still exclude a number of small group entities.
3 Comparable figures for 2007 not available.

Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

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

Impact of a 10% drop in real estate prices*
In millions of EUR

	Impact on economic value	
	2007	2008
Total	-73	-85

* The 2007 figures exclude Absolut Bank and a number of small group companies. The 2008 figures include Absolut Bank but still exclude a number of small group companies.

Foreign exchange risk

KBC pursues a prudent policy as regards its *structural currency exposure*, essentially seeking to avoid currency risk. FX exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The FX exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged.
Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Liquidity risk management

Description

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

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

Managing liquidity risk

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

KBC's liquidity framework is based on the following pillars:

- Contingency liquidity risk:

  Contingency liquidity risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.).

  The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (a) a period that is required to restore market confidence in the group following a KBC-specific event and (b) a period that is

required for markets to stabilise after a general market event. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.

- Structural liquidity risk

  The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on wholesale funding. Therefore, the forecast structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented.

  The table illustrates structural liquidity risk by grouping the assets and liabilities at year-end 2008 according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. In 2008, KBC attracted 69 billion euros' worth of funding from the professional market. When interbank lending is also taken into account, net funding attracted through the professional market fell to 25 billion euros.

Liquidity risk at year-end[1,2] In billions of EUR	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	not defined	Total
31-12-2007 (including intercompany deals)								
Total inflows	90	42	42	64	33	26	46	343
Total outflows	108	44	32	34	11	9	151	390
Net liquidity gap in 2007	-17	-3	10	30	22	17	-105	-46
31-12-2008 (excluding intercompany deals)								
Total inflows	102	23	25	68	39	43	8	308
Total outflows[3]	122	30	24	26	7	9	90	308
Professional funding	48	11	4	1	0	0	0	65
Customer funding	23	11	14	6	1	6	72	133
Debt certificates	5	7	6	20	6	3	0	46
Other[4]	46	0	0	0	0	0	18	64
Liquidity gap in 2008 (excl. undrawn commitments)	-20	-7	1	41	33	34	-82	0
Undrawn commitments							-43	
Net liquidity gap in 2008 (incl. undrawn commitments)	-20	-7	1	41	33	34	-125	-43

1 Absolut Bank and CIBANK included for the first time in the 2008 figures.
2 Differences with Note 14 stem from differences in scope: non-material banking entities and insurance entities are not included in the table.
3 Professional funding includes all deposits from credit insitutions and investment firms, as well as all repos with other customers. Savings certificates are included in the 'Customer funding' category, whereas they are included under 'Debt certificates' in Note 14.
4 'Other' in the first time bucket comprises mainly derivatives with negative fair value. These are compensated by derivatives with positive fair value incorporated into inflows.

- Operational liquidity risk

  Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. The most volatile components of the balance sheet are monitored on a daily basis by the Group Treasury unit, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Impact of the financial crisis on KBC's liquidity position

KBC has always had a strong customer deposit base and this was no different during the financial crisis, owing to the continued steady inflow of deposits. As the deposit overhang is almost entirely invested in securities pledgeable at the ECB, KBC has a large liquidity buffer. Compared to its European competitors, KBC's reliance on interbank funding is relatively low. However, during the crisis, more recourse was had to short-term interbank funding, as market conditions prevented maturing debt issues from being replaced by new long-term funding. Despite the severe liquidity crisis, KBC's liquidity buffer has remained within pre-set limits.

Market risk management

Description

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

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

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

Through its specialised subsidiaries (KBC Financial Products (KBC FP), KBC Securities and KBC Peel Hunt), the group also engages in trading in equities and their derivatives. KBC FP also sells and deals in structured credit derivatives (services for hedge funds and the launch and management of collateralised debt obligations). KBC FP was also involved in the seeding and management of Alternative Investment Management (AIM) hedge funds. However, KBC FP has been downsizing its activities in response to the current market situation: the proprietary trading and alternative investment management business lines are being closed down completely, while secured advances to hedge funds will be run down as rapidly as possible.

Risk governance

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

Decisions relating to trading risk management are taken by the Group Trading Risk Committee, which is chaired by the Group CFRO and includes representatives from line management, risk management and top management. This committee manages market risk and deals with counterparty and operational risk related to the trading activities. It also keeps track of structural trends, monitors group-wide risk limits and may order corrective action to be taken. The development of portfolio models, the measurement of the risk position, and monitoring and reporting tasks are all performed centrally and at group level. The Group Model Committee is responsible for the mathematical and operational risk aspects of all market risk models developed and/or used within the KBC group.

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

Managing market risk

The principal tool for measuring and monitoring market risk exposures in the trading book is the Value-at-Risk (VAR) method. VAR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. KBC uses the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). The VAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.

The VAR model is supplemented by extensive stress tests. Whereas the VAR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. During the second half of 2008, KBC also developed stress tests on KBC FP's CDO portfolio, based on the loss assumptions published by rating agencies for ABS and CDOs.

Risk concentrations are monitored via a series of secondary limits, the most important being a three-dimensional scenario limit (based on movements in spot prices, volatilities and credit spreads). Other secondary limits include equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk. In addition, risks

inherent in options (the so-called 'greeks') or the specific risk associated with a particular issuer or country are also subject to concentration limits.

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature of the valuation process is not guaranteed (for instance, when no reliable independent data are available), a parameter review is performed. Where applicable, adjustments to the fair value are made to reflect close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

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

Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary and for all trading entities. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms, including those at KBL EPB, but excluding those of KBC Securities and KBC Peel Hunt. KBC Financial Products' VAR is also shown in the table. The calculation is based on a one-day holding period.

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VAR models to calculate regulatory capital requirements for trading activities. ČSOB (Czech Republic) has received approval from the local regulator to use its VAR model for capital requirement purposes. In the other trading entities, the standardised method is used.

The reliability of the VAR model is tested daily via a back-test, which compares the one-day VAR figure with the 'no-action P&L' (i.e. positions remain unchanged, but market data changes to the next day's data). This is done both at the top level and at the level of the different entities and desks. This back-test has shown more outliers than the year before, as a consequence of the financial crisis, for both KBC Bank and KBC Financial Products.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 21.

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Market risk (VAR, 1-day holding period) In millions of EUR	KBC Bank[1]	KBC Financial Products[2]
Average, 1 Q 2007	4	10
Average, 2 Q 2007	4	10
Average, 3 Q 2007	4	13
Average, 4 Q 2007	5	15
31-12-2007	5	13
Maximum in 2007	7	19
Minimum in 2007	3	4
Average, 1 Q 2008	5	15
Average, 2 Q 2008	7	11
Average, 3 Q 2008	6	15
Average, 4 Q 2008	12	24
31-12-2008	9	15
Maximum in 2008	15	30
Minimum in 2008	5	9

[1] Excluding 'specific interest rate risk' measured using other techniques.
[2] Excluding Atomium, fund derivatives and insurance derivatives businesses.

Operational risk management

Description

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

Managing operational risk

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

- a uniform operational risk language embedded in group-wide standards,
- one methodology,
- one set of centrally developed ICT applications, and
- centralised and decentralised reporting.

The development and implementation of this framework is supported by an extensive operational risk governance model. The framework covers all banking and insurance entities of the group, as well as all supporting activities and services offered by group entities. The framework is gradually being implemented in all the new entities of the KBC group.

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

A Group Operational Risk Committee (GORC) advises the Group Executive Committee on the group-wide framework for managing operational risks, monitors the implementation of this framework and oversees the main operational risks. The Group CFRO chairs the GORC.

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

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

The Group Value and Risk Management Directorate creates an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal and tax matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc). Assisting this directorate are the local value and risk management units – which are likewise independent of the business – in the main bank and insurance subsidiaries.

The building blocks for managing operational risks

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

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

- *Case-Study Assessments*: These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. One such assessment was used to test the internal controls for preventing and identifying rogue trading practices.
- *Key Risk Indicators*: These help monitor the exposure to certain operational risks.

Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under Basel II. The operational risk capital for KBC Bank totalled 1 billion euros at the end of 2008.

Solvency and economic capital

Description

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

Managing solvency

KBC reports its solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator. The regulatory minimum for the CAD ratio is 8% and 4% for the tier-1 ratio. However, KBC Bank has significantly higher solvability targets. Regulatory minimum solvency targets were amply exceeded, not only at year-end, but also throughout the entire year.

In accordance with Basel II, pillar 2 requirements, KBC has developed an Internal Capital Adequacy Assessment Process (ICAAP). This process uses an economic capital model (see below) to measure capital requirements based on aggregate group-wide risks, and compares these requirements with the capital available to cover risks. The ICAAP examines both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, according to a basic scenario that takes account of anticipated internal and external growth, and according to various alternative scenarios. In addition, contingency plans are chartered that might improve KBC's solvency under more difficult circumstances.

Capital-strengthening transaction with the Belgian State and the Flemish Regional Government

In October 2008, KBC and the Belgian government reached an agreement to further strengthen KBC's financial position. Signed at the end of December 2008, the transaction entailed KBC issuing 3.5 billion euros' worth of non-transferable, non-voting core-capital securities to the Belgian State. KBC has used the proceeds of the transaction to increase its core tier-1 capital in the banking business by 2.25 billion euros and to bolster the capital base of the insurance business by 1.25 billion euros, resulting in a further and significant strengthening of its banking and insurance solvency ratios. More detailed information on this transaction is provided in the 'Consolidated annual accounts' section, Note 30.

In January 2009, KBC's capital base was further strengthened by a similar transaction with the Flemish Regional Government, this time for 2 billion euros, plus a supplementary stand-by facility of 1.5 billion euros. More detailed information on this transaction is provided in the 'Consolidated annual accounts' section, Note 37.

The Belgian Banking, Finance and Insurance Commission has confirmed that the securities issued in both transactions (ad 3.5 billion and 2 billion euros, respectively) qualify as core tier-1 capital.

Solvency

The table shows the tier-1 and CAD ratios calculated under Basel II. It should be noted that Basel II rules have been implemented in all entities throughout the group since 2008 (this was not yet the case at 31 December 2007, the end of the transition year). Primarily the Basel II IRB Foundation approach is being used (for about 74% of the weighted risks), while the weighted risks of the other companies (roughly 26% of such risks) are calculated according to the standardised method.

In order to strengthen the solvency ratios of KBC Bank and with a view to optimising the use of those hybrid instruments allowed by the regulator, KBC Bank issued so-called non-innovative hybrid tier-1 capital instruments worth 2 billion euros in the second quarter of 2008. In Belgium, banks may issue both innovative and non-innovative hybrid capital instruments which qualify for a maximum 25% of tier-1 capital (with additional limits for the innovative hybrid component). To be classified as non-innovative, the instrument must have a number of features, viz. they need to be subordinated, should not provide for any step-up in dividends, should be perpetual (no general redemption right for investors) and may be converted to ordinary shares subject to certain limits and approvals.

In millions of EUR	31-12-2007	31-12-2008
	Basel II	Basel II
Total regulatory capital, after profit appropriation	15 723	17 941
Tier-1 capital[1]	10 942	12 998
Parent shareholders' equity	12 342	10 728
Intangible fixed assets (-)	- 197	- 121
Goodwill on consolidation (-)	- 1 811	- 2 127
Innovative hybrid tier-1 instruments	1 694	1 555
Non-innovative hybrid tier-1 instruments	0	1 793
Minority interests	584	599
Mandatorily convertible bonds and other tier-2 instruments (-)	- 186	0
Revaluation reserve, available-for-sale assets (-)	46	857
Hedging reserve, cashflow hedges (-)	- 73	352
Valuation differences in financial liabilities at fair value – own credit risk (-)	0	- 245
Minority interests in available-for-sale reserve and hedging reserv, cashflow hedges (-)	2	1
Dividend payout (-)	- 876	0
Items to be deducted (-)	- 583	- 394
Tier-2 and tier-3 capital	4 782	4 943
Mandatorily convertible bonds	186	0
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	581	740
Revaluation reserve, available-for-sale shares (at 90%)	154	10
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	2	- 7
IRB provision excess (+)	139	209
Subordinated liabilities	4 285	4 243
Tier-3 capital	18	144
Items to be deducted (-)	-583	-394
Total weighted risks	128 536	135 557
Credit risk	107 461	103 788
Market risk	12 329	19 816
Operational risk[3]	8 747	11 953
Solvency ratios		
Tier-1 ratio	8,5%	9,6% (pro forma[2] 11,2%)
of which core Tier-1 ratio	7,2%	7,1% (pro forma[2] 8,6%)
CAD ratio	12,2%	13,2% (pro forma[2] 14,7%)

1 Audited figures.
2 Includes the impact of the 2-billion-euro transaction concluded with the Flemish Regional Government in January 2009 to strengthen the group's capital base.
3 The substantial increase is due mainly to the fact that, as of 1 January 2008, the scope of Basel II was extended to all KBC group entities, including those that had not previously been subject to Basel II regulations.

Composition of the Board of Directors

The Board of Directors

Composition of the Board of Directors on 31 December 2008

NAME	Position	Period served on the Board in 2008	End of current term of office
HUYGHEBAERT Jan	Chairman	Full year	2010
PHILIPS Luc	Vice Chairman	Full year	2010
BERGEN André	Executive Director	Full year	2010
AGNEESSENS Herman	Executive Director	Full year	2010
DEFRANCQ Chris	Executive Director	Full year	2010
DE RAYMAEKER Danny	Executive Director	8 months	2012
SEGERS Guido	Executive Director	Full year	2009
VANHEVEL Jan	Executive Director	Full year	2010
VERWILGHEN Etienne	Executive Director	Full year	2010
FLORQUIN Frans	Executive Director	4 months	2008
DE WILDE Julien	Independent Director	Full year	2010
DE BECKER Sonja	Non-Executive Director	Full year	2009
DEPICKERE Franky	Non-Executive Director	Full year	2011
KONINGS Pierre	Non-Executive Director	Full year	2009
NONNEMAN Walter	Non-Executive Director	8 months	2012
ORLENT-HEYVAERT Marita	Non-Executive Director	Full year	2009
PEETERS Paul	Non-Executive Director	Full year	2009
SAP Gustaaf	Non-Executive Director	Full year	2009
VANDEN AVENNE Patrick	Non-Executive Director	Full year	2009
VANTIEGHEM Germain	Non-Executive Director	Full year	2010
WAUTERS Dirk	Non-Executive Director	Full year	2009
WITTEMANS Marc	Non-Executive Director	Full year	2010

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

Additional information

- Repurchase of own shares: neither KBC Bank nor its subsidiaries hold any treasury stock.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code: there were no such conflicts of interest in 2008.
- Discharge of the directors and the auditor: in compliance with the law and the articles of association, the General Meeting of Shareholders is requested to grant discharge to the directors and the auditor for the performance of their mandate in the 2008 financial year.
- Appointments and resignations: the terms of office of the directors Sonja De Becker, Marita Orlent-Heyvaert, Pierre Konings, Paul Peeters, Gustaaf Sap, Guido Segers, Patrick Vanden Avenne and Dirk Wauters will end at the General Meeting of Shareholders on 29 April 2009. It will be proposed to the General Meeting that they be re-appointed for a further period of four years. Herman Agneessens will relinquish his seat. The Board of Directors has decided to appoint Luc Philips – whose term of office as director runs until the annual general meeting of 2010 – to replace Herman Agneessens as executive director.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the external offices held by the executive managers and directors of KBC Bank in other companies – with the exception of those functions performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993 – are listed below.

Company name	Registered office	Sector	Position	Listed	Share of capital held
Luc Philips, Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	36,00%
Norkom Technologies Ltd	UK	technology software	Director	N	N
Norkom Alchemist Ltd	Ireland	technology software	Director	N	N
Norkom Group Ltd	Ireland	holding company	Director	ISE; AIM	N
Zinner NV	Belgium	real estate	Director	N	13,11%
ThromboGenics NV	Belgium	biopharmaceuticals	Director	Euronext	N
Danny De Raymaeker, Executive Director					
Concert Noble NV	Belgium	conference venues	Chairman of the Board of Directors	N	100,00%
VAB NV	Belgium	road breakdown assistance	Director	N	N
VAB Group NV	Belgium	road breakdown assistance	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Miko NV	Belgium	food/plastics	Independent Director	NYSE Euronext	N
Germain Vantieghem, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Guyro	Belgium	real estate	Director	N	N
Gemapat bvba	Belgium	management	Business Manager	N	N
Decospan nv	Belgium	production	Director	N	N
Delaware Consulting cvba	Belgium	consulting	Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	temping agency	Director	N	N
Aktiefinvest cvba	Belgium	real estate	Director	N	N
Arda Immo nv	Belgium	real estate	Chairman	N	N
Maatschappij voor Grondbezit nv	Belgium	real estate	Director	N	N
SBB Accountants en Belastingconsulenten bvcvba	Belgium	accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bvcvba	Belgium	accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	holding	Executive Director	N	N
Agri Investment Fund cvba	Belgium	holding	Director	N	N
Acerta cvba	Belgium	holding	Director	N	N
Acerta Consulting cvba	Belgium	holding	Director	N	N
Covalis nv	Belgium	abbattoirs & meat processing	Director	N	N
Guido Segers, Executive Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	N
Novoli Immobiliare	Italy	real estate	Director	N	32,78%
Novoli Investors	Netherlands	real estate	Director	N	60,98%
KBC Real Estate NV	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
KBC Vastgoedportefeuille België NV	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
KBC Verzekeringen Vastgoed Nederland I BV	Netherlands	real estate	Member of the Supervisory Board	N	100,00%
KBC Real Estate Luxembourg	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
KBC Internationale Financieringsmaatschappij NV	Netherlands	issuing company	Member of the Supervisory Board	N	100,00%
KBC International Finance NV	Curaçao	issuing company	Member of the Supervisory Board	N	100,00%
Gebema NV	Belgium	investment company	Chairman of the Board of Directors	N	100,00%
KBC Credit Investments NV	Belgium	investment company	Director	N	100,00%
Luc Gijsens, Senior General Manager					
Real Estate Participation n.v.	Belgium	property development	Director	N	50,00%
KBC Vastgoedportefeuille n.v.	Belgium	real estate	Director	N	100,00%
Immo-Basilix n.v.	Belgium	real estate	Director	N	95,00%
Immo-Marcel Thiry n.v.	Belgium	real estate	Director	N	95,00%
Immo-Regentschap n.v.	Belgium	real estate	Chairman of the Board of Directors	N	75,00%
Immo-Zenobe Gramme n.v.	Belgium	real estate	Director	N	100,00%
Immo-Plejaden	Belgium	real estate	Director	N	100,00%
Immo-Kolonel Bourgstraat n.v.	Belgium	real estate	Director	N	50,00%
Vastgoed Ruimte Noord	Belgium	real estate	Director	N	100,00%
KBC Real Estate Luxembourg	Luxembourg	real estate	Director	N	99,99%
KBC Real Estate	Belgium	real estate	Director	N	73,17%
Prague Real Estate	Belgium	real estate	Director	N	36,59%
Wetenschap Real Estate	Belgium	real estate	Director	N	86,59%
Apitri	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Brussels North Distribution	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Covent Garden Real Estate	Belgium	real estate	Director	N	50,00%
FM-A Invest	Belgium	real estate	Director	N	50,00%
Immo North-Plaza	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Immo Antares	Belgium	real estate	Director	N	100,00%
KBC Vastgoedinvesteringen	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg North Distribution	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg Offices Securitisations	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
Mechelen City Center	Belgium	real estate	Chairman of the Board of Directors	N	73,17%
Immo Lux-Airport NV	Luxembourg	real estate	Chairman of the Board of Directors	N	48,76%
Sonja De Becker, Director					
Aktiefinvest cvba	Belgium	real estate	Executive Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	accountancy & consulting	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten cvba	Belgium	accountancy & consulting	Executive Director	N	N
Maatschappij voor Roerend Bezit van de Belgische Boerenbond	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Acerta Consult cvba	Belgium	services sector	Director	N	N
Acerta Middelenbeheer	Belgium	services sector	Director	N	N
Agriflora cvba	Belgium	organisation of fairs	Director	N	N
Stabo cvba	Belgium	products and services	Director	N	N
Agro - Services cvba	Belgium	temping agency	Director	N	N
BB-patrim	Belgium	holding company	Director	N	N
Agri Investment Fund (AIF)	Belgium	investment company	Director	N	N
Julien De wilde, Independent Director					
Agfa Gevaert	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Bank J. Van Breda & Co	Belgium	financial sector	Independent Director	N	N
Bekaert	Belgium	industry	Director	Euronext	N
Metris	Belgium	ICT	Chairman of the Board of Directors	Euronext	N
Nyrstar	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding	Belgium	holding company	Independent Director	Euronext	N
Pierre Konings, Director					
BD-World SA	Belgium	distribution	Director	N	N
E-Capital II	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Capricorn Cleantech Fund Investments	Belgium	investment company	Chairman of the Board of Directors	N	N
Control Tab	Belgium	holding company	Chairman of the Board of Directors	N	N
Walter Nonneman, Independent Director					
Cera Beheersmaatschappij	Belgium	management	Independent Director	N	N
Paul Peeters, Director					
Almancora Beheersmaatschappij	Belgium	management	Director	N	N
Cera Beheersmaatschappij	Belgium	management	Director	N	N
Gustaaf Sap, Director					
Cecan NV	Belgium	holding company	Chairman of the Board of Directors	N	N
Cecan Invest NV	Belgium	financial sector	Director	N	N
Patrick Vanden Avenne, Director					
Calibra Poultry NV	Belgium	poultry processing	Chairman of the Board of Directors	N	N
Biopower cvba	Belgium	industry	Vice-Chairman of the Board of Directors	N	N
Bens NV	Belgium	food	Executive Director	N	N
Sininvest NV	Belgium	poultry	Director	N	N
Vanden Avenne Vrieshuis NV	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem	Belgium	compound feed	Executive Director	N	N
Lacotrans NV	Belgium	transport	Executive Director	N	N
Euro-Silo NV	Belgium	transfer and storage of grain	Director	N	N
Acta NV	Belgium	transport	Director	N	N
Isarick NV	Belgium	management	Director	N	N
Harpaca NV	Belgium	management	Director	N	N
Larinvest NV	Belgium	holding company	Director	N	N
Ispahan NV	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	Business Manager	N	N
Fidex NV	Belgium	transport	Director	N	N
Dirk Wauters, Director					
VRT	Belgium	audio-visual media	Executive Director	N	N
Vlaamse Audiovisuele Regie	Belgium	advertising	Chairman of the Board of Directors	N	N

Consolidated annual accounts

Auditor’s report

Statutory auditor's report to the General Meeting of Shareholders of KBC Bank NV on the consolidated financial statements for the year ended 31 December 2008

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

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank NV and its subsidiaries (collectively referred to as ‘the Group’) for the year ended 31 December 2008, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 318.550 million and the consolidated statement of income shows a loss for the year, share of the Group, of € 1.521 million.

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

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

Responsibility of the statutory auditor

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view of the Group’s financial position as at 31 December 2008 and of the results of its operations and its cash flows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

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

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

Brussels, 30 March 2009

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

Jean-Pierre Romont
Partner

Pierre Vanderbeek
Partner

Ref: 09JPR0061

Consolidated income statement

In millions of EUR	Note	2007	2008
Net interest income	3	3 179	4 020
Interest income		13 882	15 883
Interest expense		- 10 703	- 11 863
Dividend income	4	126	131
Net (un)realised gains from financial instruments at fair value through profit or loss	5	1 768	- 2 100
Net realised gains from available-for-sale assets	6	189	- 11
Net fee and commission income	7	1 897	1 769
Fee and commission income		2 666	2 443
Fee and commission expense		- 769	- 674
Other net in s	8	416	538
TOTAL INCOME		7 576	4 349
Operating expenses	9	- 4 140	- 4 411
staff expenses	10	- 2 276	- 2 222
general administrative expenses		- 1 669	- 1 866
depreciation and amortisation of fixed assets		- 222	- 240
provisions for risks and charges		27	- 83
Impairment	11	- 212	- 1 439
on loans and receivables		- 148	- 760
on available-for-sale assets		- 50	- 613
on goodwill		0	- 19
on other		- 14	- 48
Share in results of associated companies	12	59	2
PROFIT BEFORE TAX		3 283	- 1 500
Income tax expense	13	- 750	216
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		2 534	- 1 283
attributable to minority interest		273	238
attributable to equity holders of the parent		**2 261**	**- 1 521**

- The Board of Directors will propose that no dividend be paid out for the 2008 financial year.
- For changes in the presentation of the income statement, see Note 1 a.

Consolidated balance sheet

ASSETS (in millions of EUR)	Notes	31-12-2007	31-12-2008
Cash and cash balances with central banks		2 906	3 410
Financial assets	14-17	299 613	305 657
Held for trading		73 394	73 639
Designated at fair value through profit or loss		36 284	21 759
Available for sale		26 933	26 376
Loans and receivables		152 778	175 252
Held to maturity		9 525	8 356
Hedging derivatives		698	275
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	- 223	169
Tax assets	23	659	1 791
Current tax assets		102	224
Deferred tax assets		556	1 566
Non-current assets held for sale and disposal groups		41	625
Investments in associated companies	24	646	44
Investment property	25	448	467
Property and equipment	25	1 760	2 482
Goodwill and other intangible assets	26	2 008	2 248
Other assets	22	1 618	1 659
TOTAL ASSETS		309 476	318 550

LIABILITIES AND EQUITY (in millions of EUR)		31-12-2007	31-12-2008
Financial liabilities	14, 15, 17	289 175	301 072
Held for trading		41 853	44 709
Designated at fair value through profit or loss		37 503	36 942
Measured at amortised cost		209 382	218 544
Hedging derivatives		438	877
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	0	0
Tax liabilities	23	467	360
Current tax liabilities		388	306
Deferred tax liabilies		79	54
Non-current liabilities held for sale and liabilities associated with disposal groups		0	0
Provisions for risks and charges	27	401	528
Other liabilities	28, 29	5 519	4 252
TOTAL LIABILITIES		295 562	306 212
Total equity		13 914	12 338
Parent shareholders' equity	30	12 342	10 728
Minority interests		1 572	1 610
TOTAL LIABILITIES AND EQUITY		309 476	318 550

- For changes in the presentation of the balance sheet, see Note 1 a
- At year-end 2008, ‘Non-current assets held for sale and disposal groups’ related primarily to Nova Ljubljanska banka, an associated company in Slovenia.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	reserve (cashflow hedges)	Reserves	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2007											
Balance at the beginning of the period	3 763	490	188	0	555	46	5 491	71	10 603	1 565	12 168
Fair value adjustments before tax	0	0	0	0	- 288	82	0	0	- 206	0	- 206
Deferred tax on fair value changes	0	0	0	0	60	- 42	0	0	18	0	18
Transfer from reserve to net profit											
impairment losses	0	0	0	0	0	0	0	0	0	0	0
net gains/losses on disposal	0	0	0	0	- 435	0	0	0	- 435	0	- 435
deferred income tax	0	0	0	0	61	0	0	0	61	0	61
Transfer from hedging reserve to net profit											
gross amount	0	0	0	0	0	- 16	0	0	- 16	0	- 16
deferred income taxes	0	0	0	0	0	4	0	0	4	0	4
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	1	0	0	0	1	0	1
Other	0	0	- 2	0	0	0	2	- 60	- 60	0	0
Subtotal, recognised directly in equity	0	0	- 2	0	- 601	28	2	- 60	- 634	0	- 634
Net profit for the period	0	0	0	0	0	0	2 261	0	2 261	273	2 534
Total income and expense for the period	0	0	- 2	0	- 601	28	2 263	- 60	1 627	273	1 900
Dividends	0	0	0	0	0	0	- 1 389	0	- 1 389	0	- 1 389
Capital increase	267	1 233	0	0	0	0	0	0	1 500	0	1 500
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of tre²	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 266	- 266
Total change	267	1 233	- 2	0	- 601	28	874	- 60	1 738	7	1 745
Balance at the end of the period	4 030	1 723	186	0	- 46	73	6 365	11	12 342	1 572	13 914
of which revaluation reserve for shares					171						
of which revaluation reserve for bonds					- 216						
of which revaluation reserve for other assets than bonds and shares					- 1						
of which relating to non-current assets held for sale and disposal groups	-	-	-	0	0	0	-	0	0	0	0

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

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2008											
Balance at the beginning of the period	4 030	1 723	186	0	- 46	73	6 365	11	12 342	1 572	13 914
Fair value adjustments before tax	0	0	0	0	- 1 180	- 617	0	0	- 1 797	0	- 1 797
Deferred tax on fair value changes	0	0	0	0	364	199	0	0	563	0	563
Transfer from reserve to net profit											
impairment losses	0	0	0	0	5	0	0	0	5	0	5
net gains/losses on disposal	0	0	0	0	0	0	0	0	0	0	0
deferred income tax	0	0	0	0	0	0	0	0	0	0	0
Transfer from hedging reserve to net profit											
gross amount	0	0	0	0	0	- 10	0	0	- 10	0	- 10
deferred income taxes	0	0	0	0	1	2	0	0	3	0	3
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	- 220	- 220	0	- 220
Other	0	0	0	0	0	0	2	0	2	0	2
Subtotal, recognised directly in equity	0	0	0	0	- 811	- 426	2	- 220	- 1 454	0	- 1 454
Net profit for the period	0	0	0	0	0	0	- 1 521	0	- 1 521	238	- 1 283
Total income and expense for the period	0	0	0	0	- 811	- 426	- 1 519	- 220	- 2 975	238	- 2 737
Dividends	0	0	0	0	0	0	- 889	0	- 889	0	- 889
Capital increase	1 669	767	- 186	0	0	0	0	0	2 250	0	2 250
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0		0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 199	- 199
Total change	1 669	767	- 186	0	- 811	- 426	- 2 408	- 220	- 1 614	38	- 1 576
Balance at the end of the period	5 698	2 490	0	0	- 857	- 352	3 957	- 209	10 728	1 610	12 338
of which revaluation reserve for shares					11						
of which revaluation reserve for bonds					- 868						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups	-	-	-	0	- 10	0	-	- 4	- 14	0	- 14

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

- For information on the total number of shares and the capital-strengthening transaction concluded with the Belgian State, see Note 30.
- At present, KBC does not face any operational or legal constraints to transfer capital, or to repay debt, between parent companies and their subsidiaries, nor are any such constraints expected in the future.

Consolidated cashflow statement

In millions of EUR	31/12/2007	31/12/2008
Profit before tax	3 283	- 1 500
Adjustments for:	- 231	- 1 992
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	287	920
Profit/Loss on the disposal of investments	- 71	- 118
Change in impairment on loans and advances	148	760
Change in gross technical provisions - insurance	0	0
Change in the reinsurers' share in the technical provisions	0	0
Change in other provisions	- 27	83
Unrealised foreign currency gains and losses and valuation differences	- 508	- 3 635
Income from associated companies	- 59	- 2
Cash flows from operating profit before tax and before changes in operating assets and liabilities	3 052	- 3 492
Changes in operating assets (excl. cash & cash equivalents) (1)	- 26 188	- 15 274
Changes in operating liabilities (excl. cash & cash equivalents) (2)	13 985	13 628
Income taxes paid	- 672	- 301
Net cash from (used in) operating activities	- 9 822	- 5 439
Purchase of held-to-maturity securities	- 1 108	- 1 143
Proceeds from the repayment of held-to-maturity securities at maturity	1 169	2 063
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	- 774	- 172
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	0	0
Purchase of shares in associated companies	- 69	0
Proceeds from the disposal of shares in associated companies	0	26
Dividends received from associated companies	20	1
Purchase of investment property	- 32	- 9
Proceeds from the sale of investment property	0	1
Purchase of intangible fixed assets (excl. goodwill)	- 72	- 68
Proceeds from the sale of intangible fixed assets (excl. goodwill)	4	8
Purchase of property and equipment	- 317	- 748
Proceeds from the sale of property and equipment	122	252
Net cash from (used in) investing activities	- 1 058	213
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	7 117	- 4 223
Proceeds from or repayment of subordinated liabilities	1 356	2 281
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	1 500	2 250
Proceeds from the issuance of preference shares	0	0
Dividends paid	- 1 480	- 939
Net cash from (used in) financing activities	8 494	- 631
Net increase or decrease in cash and cash equivalents	- 2 386	- 5 857
Cash and cash equivalents at the beginning of the period	16 706	14 459
Effects of exchange rate changes on opening cash and cash equivalents	140	137
Cash and cash equivalents at the end of the period	14 459	8 740

In millions of EUR	31/12/2007	31/12/2008
Additional information		
Interest paid	- 10 703	- 11 863
Interest received	13 882	15 883
Dividends received (including equity method)	146	133
Components of cash and cash equivalents	14 459	8 740
Cash and cash balances with central banks	2 898	3 403
Loans and advances to banks repayable on demand and term loans to banks < 3 months	24 729	20 659
Deposits from banks repayable on demand and redeemable at notice	- 13 168	- 15 323
of which not available	0	0

1 Including loans and receivables, available-for-sale assets, held-for-trading assets, financial assets designated at fair value through profit or loss, derivative hedging assets, and non-current assets held for sale and disposal groups.
2 Including deposits from banks, debts represented by securities, financial liabilities held for trading, financial liabilities designated at fair value through profit or loss, derivative hedging liabilities, and liabilities associated with disposal groups.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and disinvestments of consolidated subsidiariesare set out below. For a more detailed list, see Note 36. All (material) acquisitions and divestments of group companies in 2007 and 2008 were paid for in cash.

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries

In millions of EUR	2007 AKB "Absolut Bank" (ZAO)	2007 CIBANK	2007 KBC Commercial Finance NV	2008 Istrobanka
Acquistion (A) / Disposal (D)	A	A	A	A
Percentage of shares bought or sold	95,00%	75,58%	50%	100%
Segment	Banking	Banking	Banking	Banking
Business Unit	CEE	CEE	MB	CEE
Assets & liabilities bought or sold				
Cash and cash balances with central banks	74	130	0	145
Financial assets				
Held for trading	226	34		0
Designated at fair value through profit or loss	0	0		13
Available for sale	25	5	0	67
Loans and receivables	2 024	668	355	823
Held-to-maturity investments	0	0		117
Hedging derivatives	0	0		0
of which: cash and cash equivalents	74	424	0	181
Financial liabilities				
Held for trading	1	0	0	0
Designated at fair value through profit or loss	0	0	0	0
Measured at amortised cost	1 623	835	315	924
Hedging derivatives	0	0	0	0
of which: cash and cash equivalents	- 12	- 3	0	2
Gross technical provisions, insurance	0	0		
Purchase price or sale price	698	297	36	350
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	- 636	123	- 36	- 172

CEE: Central and Eastern Europe and Russia.
MB: Merchant banking

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated annual accounts were authorised for issue on 26 March 2009 by the Board of Directors of KBC Bank NV.

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

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

The following IFRS standards and IFRICs were issued but not yet effective at year-end 2008. The KBC group will apply these standards as of their effective date:

- IFRS 8 (Operating Segments): the group will apply this standard from 1 January 2009, its effective date. It replaces IAS 14 (Segment Reporting) and will have an impact on the current segment reporting in Note 2.
- IFRIC 11 (Group and Treasury Share Transactions).
- Amendments to IAS 1: the revised version of IAS 1 changes a number of requirements regarding the presentation of financial statements and requires additional disclosure. This standard became effective on 1 January 2009.
- Amendments to IAS 23 (Borrowing Costs): this standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This standard became effective on 1 January 2009.
- Amendment to IFRS 2 (Share-based Payment): the revised version of IFRS 2 clarifies the term '*vesting conditions*' and specifies the treatment of '*non-vesting conditions*' and the cancellation of share-based payment transactions. This standard became effective on 1 January 2009.

KBC has adopted the amendments to IAS 39. These amendments, which were approved by the European Commission in the fourth quarter of 2008, permit the reclassification of certain financial instruments. For more information on the scope and implementation of these amendments, see Note 14.

The following changes have been made in the presentation of the balance sheet and the income statement as of 2008 (adjustments have been made retroactively to the reference figures for 2007):

- Balance sheet: whereas in previous years, '*accrued interest income*' and '*accrued interest expense*' were disclosed separately in the balance sheet, they are as of 2008 included in the corresponding line items of the financial assets and financial liabilities. Total 'accrued interest income' and 'accrued interest expense' is still disclosed in Note 14. Changes have also been made to a number of notes to correspond with the changes made to the way in which the balance sheet is presented.
- Income statement: the '*Net interest income*' heading has been further broken down into 'Interest income' and 'Interest expense'.

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

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate at balance sheet date.

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

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

Financial instruments are reported according to the *dirty price* convention. Accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD X LGD X EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
    When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
    For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.
    Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
  Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
  Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant or prolonged decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured

on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.

- *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. The relevant conditions are as follows: the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  Fair value hedges for a portfolio of interest rate risk (portfolio hedge of interest rate risk) are applied by KBC to hedge the interest rate risk for a portfolio of loans with interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts.* These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:

1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments ('market value adjustments').* Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.

- *Day 1 profits.* When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. Day 1 profit is recognised for structuring CDOs and for insurance derivatives businesses. However, a portion is reserved and is released in profit or loss during the life and until the maturity of the CDO.

d Goodwill and other intangible assets

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

e Property and equipment (including investment property)

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

f Pension liabilities

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

g Tax liabilities

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

h Provisions

Provisions are recognised in the balance sheet:

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

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:

- Written stock options on treasury shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000–2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

j Exchange rates used

	Exchange rate at 31-12-2008		Exchange rate average in 2008	
	1 EUR = … currency	Change from 31-12-2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26.88	-1%	25.03	11%
GBP	0.953	-23%	0.793	-14%
HUF	266.7	-5%	250.5	0%
PLN	4.154	-13%	3.504	8%
SKK	30.13	11%	31.35	8%
USD	1.392	6%	1.476	-7%

k Changes made to accounting policies in 2008

No material changes were made to the accounting policies compared with 2007.

Notes on segment reporting

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

Under IFRS, the primary segment reporting format used by KBC Bank is based on the bank's legal structure. KBC Bank distinguishes between the following primary segments:

- Banking: KBC Bank and its subsidiaries (subsidiary banks);
- Asset management: KBC Asset Management and its subsidiaries;
- Leasing: KBC Lease and its subsidiaries;
- Equity business: KBC Financial Products, KBC Securities and KBC Private Equity;
- Other: Mainly smaller subsidiaries that do not belong to the above segments;

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

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).

The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

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

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	Interseg-ment elimina-tions	KBC Bank Consolida-ted
INCOME STATEMENT 12M 2007							
Net interest income	3 335	23	116	- 473	180	- 2	3 179
Dividend income	40	7	0	76	3	0	126
Net (un)realised gains from financial instruments at fair value through profit or loss	537	1	- 1	1 228	3	0	1 768
Net realised gains from available-for-sale assets	183	4	0	0	1	0	189
Net fee and commission income	1 249	469	- 10	151	44	- 6	1 897
Other net income	319	5	30	34	81	- 54	416
TOTAL INCOME	5 663	510	136	1 017	313	- 62	7 576
Operating expenses*	- 3 279	- 99	- 81	- 645	- 99	62	- 4 140
Impairment	- 189	0	- 1	- 2	- 19	0	- 212
on loans and receivables	- 135	0	- 1	- 2	- 9	0	- 148
on available-for-sale assets	- 50	0	0	0	0	0	- 50
on goodwill	0	0	0	0	0	0	0
on other	- 4	0	0	0	- 10	0	- 14
Share in results of associated companies	57	0	0	2	0	0	59
PROFIT BEFORE TAX	2 253	411	54	371	195	0	3 283
Income tax expense	- 533	- 94	- 18	- 99	- 6	0	- 750
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 720	317	36	272	189	0	2 534
attributable to minority interests	28	153	0	2	90	0	273
attributable to equity holders of the parent	1 692	164	36	269	99	0	2 261
* of which non-cash expenses	- 165	- 1	- 1	- 16	- 13	0	- 195
depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
other	26	0	1	0	0	0	27

In millions of EUR							
INCOME STATEMENT 12M 2008							
Net interest income	4 274	10	56	- 468	150	- 1	4 020
Dividend income	49	32	0	50	1	0	131
Net (un)realised gains from financial instruments at fair value through profit or loss	- 1 419	- 3	- 2	- 684	9	0	- 2 100
Net realised gains from available-for-sale assets	- 11	2	0	0	- 2	0	- 11
Net fee and commission income	1 129	405	6	134	96	- 1	1 769
Other net income	367	9	68	141	50	- 98	538
TOTAL INCOME	4 389	455	128	- 827	303	- 100	4 349
Operating expenses*	- 3 769	- 105	- 81	- 461	- 94	100	- 4 411
Impairment	- 1 205	- 9	- 41	- 176	- 7	0	- 1 439
on loans and receivables	- 680	0	- 41	- 31	- 7	0	- 760
on available-for-sale assets	- 507	- 9	0	- 97	0	0	- 613
on goodwill	0	0	0	- 19	0	0	- 19
on other	- 18	0	0	- 29	0	0	- 48
Share in results of associated companies	14	0	0	- 12	- 1	0	2
PROFIT BEFORE TAX	- 571	341	6	- 1 477	201	0	- 1 500
Income tax expense	279	- 74	- 2	35	- 22	0	216
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	- 292	268	4	- 1 442	179	0	- 1 283
attributable to minority interests	23	129	0	2	84	0	238
attributable to equity holders of the parent	- 314	139	4	- 1 444	95	0	- 1 521
* of which non-cash expenses	- 238	- 1	- 3	- 69	- 12	0	- 324
depreciation and amortisation of fixed assets	- 197	- 1	- 2	- 23	- 18	0	- 240
other	- 41	- 1	- 2	- 46	6	0	- 83

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2007						
Cash and cash balances with central banks	2 881	0	0	25	0	2 906
Financial assets	243 981	680	4 245	42 999	7 707	299 613
Held for trading	38 656	0	0	34 421	317	73 394
Designated at fair value through profit or loss	35 365	3	0	336	580	36 284
Available for sale	24 400	547	1	1 852	133	26 933
Loans and receivables	135 343	130	4 244	6 391	6 671	152 778
Held to maturity	9 520	0	0	0	5	9 525
Hedging derivatives	697	0	0	0	1	698
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	- 223	0	0	0	0	- 223
Tax assets	493	1	13	126	25	659
Current tax assets	50	0	11	33	8	102
Deferred tax assets	443	1	2	94	17	556
Non-current assets held for sale and disposal groups	1	0	0	40	0	41
Investments in associated companies	603	0	0	40	3	646
Investment property	94	0	0	0	354	448
Property and equipment	1 681	4	4	64	7	1 760
Goodwill and other intangible assets	1 733	1	59	197	18	2 008
Other assets	758	41	221	573	25	1 618
Total assets	252 004	727	4 542	44 065	8 139	309 476
Financial liabilities	233 337	11	25	30 538	25 265	289 175
Held for trading	20 293	0	0	21 308	251	41 853
Designated at fair value through profit or loss	32 314	0	0	1 851	3 338	37 503
Measured at amortised cost	180 292	11	25	7 379	21 676	209 382
Hedging derivatives	438	0	0	0	0	438
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Tax liabilities	377	16	18	45	12	467
Current tax liabilities	323	16	5	34	11	388
Deferred tax liabilies	54	0	13	11	1	79
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	0	0	0	0
Provisions for risks and charges	390	0	3	6	1	401
Other liabilities	4 272	45	125	982	95	5 519
Total liabilities	238 375	72	171	31 571	25 373	295 562
Acquisitions of property and equipment and intangible assets, including goodwill	1 217	0	60	158	32	1 467

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2008						
Cash and cash balances with central banks	3 407	0	0	2	0	3 410
Financial assets	244 318	804	4 050	44 313	12 172	305 657
Held for trading	42 628	0	0	29 656	1 355	73 639
Designated at fair value through profit or loss	20 013	7	0	1 048	691	21 759
Available for sale	25 478	711	1	63	123	26 376
Loans and receivables	147 567	86	4 048	13 546	10 003	175 252
Held to maturity	8 356	0	0	0	0	8 356
Hedging derivatives	275	0	0	0	0	275
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	169	0	0	0	0	169
Tax assets	1 289	5	9	470	18	1 791
Current tax assets	76	4	5	135	3	224
Deferred tax assets	1 212	1	4	334	15	1 566
Non-current assets held for sale and disposal groups	605	0	0	19	0	625
Investments in associated companies	40	0	0	2	3	44
Investment property	89	0	0	0	378	467
Property and equipment	1 660	3	623	72	123	2 482
Goodwill and other intangible assets	1 918	1	51	262	16	2 248
Other assets	846	57	344	384	29	1 659
Total assets	254 341	871	5 077	45 523	12 738	318 550
Financial liabilities	241 344	0	29	35 119	24 579	301 072
Held for trading	20 853	0	0	23 818	38	44 709
Designated at fair value through profit or loss	31 771	0	0	30	5 141	36 942
Measured at amortised cost	187 844	0	29	11 271	19 401	218 544
Hedging derivatives	877	0	0	0	0	877
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Tax liabilities	295	16	14	25	9	360
Current tax liabilities	256	16	8	19	7	306
Deferred tax liabilies	39	0	6	6	2	54
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	0	0	0	0
Provisions for risks and charges	462	1	3	55	7	528
Other liabilities	3 397	65	173	518	100	4 252
Total liabilities	245 498	82	220	35 717	24 696	306 212
Acquisitions of property and equipment and intangible assets, including goodwill	586	1	322	137	153	1 199

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	Inter-segment eliminations	KBC Bank Consolidated
2007					
Gross income	3 788	2 168	1 619	0	7 576
Total assets (period-end)	169 734	48 952	90 790		309 476
Total liabilities (period-end)	165 311	44 650	85 601		295 562
Acquisitions of property and equipment and intangible assets, including goodwill (period-end)	233	1 179	55		1 467
2008					
Gross income	2 200	2 459	- 309	0	4 349
Total assets (period-end)	193 315	55 355	69 879		318 550
Total liabilities (period-end)	177 436	50 635	78 142		306 212
Acquisitions of property and equipment and intangible assets, including goodwill (period-end)	763	245	191		1 199

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2007	2008
Total	3 179	4 020
Interest income	13 882	15 883
Available-for-sale assets	1 306	1 285
Loans and receivables	7 737	9 681
Held-to-maturity investments	384	361
Other assets not at fair value	134	271
Subtotal, interest income from financial assets not measured at fair value through profit or loss	9 560	11 598
of which : impaired financial assets	10	9
Financial assets held for trading	1 605	1 625
Hedging derivatives	685	817
Other financial assets at fair value through profit or loss	2 031	1 843
Interest expense	- 10 703	- 11 863
Financial liabilities measured at amortised cost	- 7 704	- 8 587
Other liabilities not at fair value	- 12	- 7
Subtotal, interest expense for financial assets not measured at fair value through profit or loss	- 7 715	- 8 594
Financial liabilities held for trading	- 484	- 336
Hedging derivatives	- 630	- 714
Other financial liabilities at fair value through profit or loss	- 1 873	- 2 218

Note 4: Dividend income

In millions of EUR	2007	2008
Total	126	131
Breakdown by type	126	131
Held-for-trading shares	81	62
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	45	69

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

In millions of EUR	2007	2008
Total	1 768	- 2 100
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	1 549	- 4 521
Other financial instruments initially recognised at fair value through profit or loss	59	2 023
Foreign exchange trading	154	397
Fair value adjustments in hedge accounting	6	1
Microhedge	2	- 6
Fair value hedges	2	- 3
Changes in the fair value of the hedged item	- 15	103
Changes in the fair value of the hedging derivatives (including discontinuation)	17	- 106
Cashflow hedges	0	- 3
Changes in the fair value of the hedging derivatives - ineffective portion	0	- 3
Hedges of net investments in foreign operation - ineffective portion	0	0
Portfolio hedge of interest rate risk	4	7
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	- 48	391
Changes in the fair value of the hedging derivatives (including discontinuation)	48	- 391
Cashflow hedges of interest rate risk	4	7
Changes in the fair value of the hedging instrument - ineffective portion (including discontinuation)	4	7

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under ‘Portfolio hedge of interest rate risk’, the interest concerned is recognised under ‘Net interest income’. Changes in the fair value of these derivatives are recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss’, but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero.
  - For other ALM derivatives, the interest in question is recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss' (a positive 35 and a positive 33 million euros in 2007 and 2008, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to 103 million euros for 2007 and to 397 million euros for 2008. These are included in the 154 and 397 million euros shown in the table.

- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Day 1 profit is recognised for structuring CDOs and for insurance derivatives businesses. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):
    - Deferred day 1 profits, opening balance on 1 January 2007 — 72
    - New deferred day 1 profits — 134
    - Day 1 profits recognised in profit or loss during the period
        - Amortisation of day 1 profits — -32
        - Financial instruments no longer recognised — -63
        - Exchange differences — -7
    - Deferred day 1 profits, closing balance on 31 December 2007 — 104
    - New deferred day 1 profits — 70
    - Day 1 profits recognised in profit or loss during the period
        - Amortisation of day 1 profits — -72
        - Financial instruments no longer recognised — -20
        - Exchange differences — 4
    - Deferred day 1 profits, closing balance on 31 December 2008 — 86

Note 6: Net realised gains from available-for-sale assets

In millions of EUR	2007	2008
Total	189	- 11
Breakdown by portfolio		
Fixed-income securities	- 145	- 6
Shares	335	- 5

Note 7: Net fee and commission income

In millions of EUR	2007	2008
Total	1 897	1 769
Breakdown by type		
Fee and commission income	2 666	2 443
Securities and asset management	1 646	1 242
Commitment credit	181	232
Payments	419	522
Other	420	447
Fee and commission expense	- 769	- 674
Commission paid to intermediaries	- 81	- 74
Other	- 688	- 600

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).

Note 8: Other net income

In millions of EUR	2007	2008
Total	416	538
Net realised gain on loans and receivables	18	- 2
Net realised gain on held-to-maturity investments	1	0
Net realised gain on financial liabilities measured at amortised cost	0	- 1
Other	397	541
of which: realised gain on sale of shares Prague Stock Exchange	0	40
of which: Belgian Deposit Guarantee Agency - KBC Bank	44	0
of which: impact of sale GBC - K&H Bank	35	0
of which: impact ownership percentage NLB	0	54
of which: income concerning leasing at the KBC Lease-group	12	46
of which: income from consolidated private equity participations	24	94
of which: income from Groep VAB	48	64

- The amount reported under 'Other net income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains or losses on property and equipment and investment property, and amounts recovered on loans that have been written off in full and realised gains or losses on the sale of held-to-maturity investments, loans and receivables and financial liabilities measured at amortised cost.

Note 9: Operating expenses

In millions of EUR	2007	2008
Total	- 4 140	- 4 411
Breakdown by type		
Staff expenses	- 2 276	- 2 222
of which share based payment: equity settled	- 1	0
of which share based payment: cash settled	- 25	30
General administrative expenses	- 1 669	- 1 866
Depreciation and amortisation of fixed assets	- 222	- 240
Provisions for risks and charges	27	- 83

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes and utilities.
- Share-based payments are included under staff expenses, and can be broken down as follows:

  A. Main cash-settled share-based payment arrangements

  KBC Financial Products (KBC FP) established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009. At the end of 2008, KBC Financial Products recognised an outstanding liability of 7 million euros in this regard (88 million euros at year-end 2007).

  B. Main equity-settled share-based payments

  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to members of staff of the company and various subsidiaries. There were share option plans for all members of staff and plans reserved for particular members of staff. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on Euronext Brussels.

The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.
KBC has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.

- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.
- In 2008, there was a capital increase reserved for KBC group employees, who could buy shares at 29.12 euros per share. This did not result in the recognition of an employee benefit (in 2007, this employee benefit came to 1.3 million euros and was recognised as a staff expense).
- An overview of the number of stock options for staff is shown in the table. The average price of the KBC share came to 65.20 euros during 2008. In 2008, no new KBC share options for personnel were issued.

	2007		2008	
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	2 223 824	43,31	1 018 188	47,12
Granted during period	7 300	97,94	0	-
Exercised during period	-1 137 286	40,80	- 133 613	42,29
Expired during period	- 75 650	34,50	- 16	37,50
Forfeited during period	0	0,00	0	0,00
Outstanding at end of period [2]	1 018 188	47,12	884 558	47,83
Exercisable at end of period	813 358	42,24	728 111	43,59

[1] In share equivalents.
[2] 2007: Range of exercise prices 28,3-97,94 euros; weighted average residual term to maturity: 46 months.
2008: Range of exercise prices 28,3-97,94 euros; weighted average residual term to maturity: 35 months.

Note 10: Personnel

	2007	2008
Total average number of persons employed (in full-time equivalents)	41 059	43 784
Breakdown by type	41 059	43 784
Blue-collar staff	525	582
White-collar staff	39 967	42 349
Senior management	567	853

Note 11: Impairment (income statement)

In millions of EUR	2007	2008
Total	- 212	- 1 439
Impairment on loans and receivables	- 148	- 760
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 168	- 737
Specific impairments for off-balance-sheet credit commitments	- 18	- 4
Portfolio-based impairments	39	- 18
Impairment on available-for-sale assets	- 50	- 613
Breakdown by type		
Shares	- 42	- 290
Other	- 8	- 323
Impairment on goodwill	0	- 19
Impairment on other	- 14	- 48
Intangible assets, other than goodwill	- 2	- 27
Property and equipment	- 9	- 5
Held-to-maturity assets	1	- 15
Associated companies (goodwill)	0	0
Other	- 4	- 1

- ‘Impairment on loans and receivables’ was accounted for primarily by loans and advances to customers (mainly term loans).
- Impairment on available-for-sale assets. The sharp increase in impairment on shares was, of course, related to plummeting share prices, but also to tighter rules for recognising impairment on the portfolio of listed shares. The much higher level of impairment in the ‘Other’ category was accounted for mainly by bonds that had been issued by Washington Mutual, Lehman Brothers and the Icelandic banks.
- Impairment on goodwill. In 2007, 0 million euros had been posted under this heading. In 2008, it included *inter alia* an amount of 15 million euros for a KBC Financial Products group company (Merchant Banking Business Unit). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2007, this heading had included primarily a 2-million-euro allocation to impairment for various intangible assets and an addition of 9-million-euro to impairment for property and equipment. In 2008, it included primarily impairment charges on intangible fixed assets (27 million euros), on property and equipment (5 million euros) and on held-to-maturity securities (15 million euros), due to the lower creditworthiness of the issuers of these securities. Impairment always relates to the difference between the carrying value before impairment and the value in use of the property and equipment and the intangible fixed asset in question.

Note 12: Share in results of associated companies

In millions of EUR	2007	2008
Total	59	2
of which Nova Ljubljaska Banka	48	8

- Impairment on (goodwill on) associated companies is included in 'Impairment'. The share in results of associated companies does not therefore take this impairment into account.

Note 13: Income tax expense

In millions of EUR	2007	2008
Total	- 750	216
Breakdown by type	- 750	216
Current taxes on income	- 672	- 301
Deferred taxes on income	- 78	517
Tax components		
Profit before tax	3 283	- 1 500
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 1 116	510
Plus/minus tax effects attributable to	366	- 293
Differences in tax rates, Belgium - abroad	160	75
Tax-free income	361	298
Adjustments related to prior years	0	21
Adjustments, opening balance of deffered taxes due to change in tax rate	- 3	- 1
Unused tax losses and unused tax credits to reduce current tax expense	4	42
Unused tax losses and unused tax credits to reduce deferred tax expense	0	- 1
Reversal of previously recognised deferred tax due to tax losses		- 30
Other (mainly non-deductible expenses)	- 157	- 699
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized	462	475

- For information on tax assets and tax liabilities, see Note 23.

Notes to the balance sheet

Note 14: Financial assets and liabilities, breakdown by portfolio and product

FINANCIAL ASSETS (in millions of EUR)	Held for trading	Designated at fair value [1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Loans and advances to credit institutions and investment firms [a]	16 098	16 014	0	15 417	-	-	-	47 529 [2]
Loans and advances to customers [b]	2 067	8 756	0	135 887	-	-	-	146 710
Discount and acceptance credit	0	0	0	717	-	-	-	717
Consumer credit	0	0	0	3 885	-	-	-	3 885
Mortgage loans	0	3 254	0	43 513	-	-	-	46 767
Term loans	2 067	5 322	0	65 796	-	-	-	73 185
Finance leasing	0	0	0	6 883	-	-	-	6 883
Current account advances	0	0	0	7 162	-	-	-	7 162
Securitised loans	0	0	0	264	-	-	-	264
Other	0	181	0	7 667	-	-	-	7 848
Equity instruments	16 992	15	939	-	-	-	-	17 947
Investment contracts (insurance)	-	0	-	-	-	-	-	0
Debt instruments issued by	16 391	11 199	25 604	-	9 296	-	-	62 491
Public bodies	5 218	8 581	13 889	-	8 737	-	-	36 425
Credit institutions and investment firms	4 059	741	3 575	-	279	-	-	8 654
Corporates	7 114	1 878	8 140	-	280	-	-	17 412
Derivatives	21 503	-	-	-	-	524	-	22 026
Total carrying value excluding accrued intrest income	73 051	35 985	26 543	151 304	9 296	524	-	296 702
Accrued interest income [2]	344	299	390	1 475	229	175	-	2 910
Total carrying value including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	-	299 613
Total fair value	73 394	36 284	26 933	151 955	9 404	698		298 668
[a] *Of which reverse repos*								*29 919*
[b] *Of which reverse repos*								*7 298*
31-12-2008								
Loans and advances to credit institutions and investment firms [a]	8 288	4 544	0	23 763	-	-	-	36 595 [2]
Loans and advances to customers [b]	4 596	4 509	0	147 057	-	-	-	156 163
Discount and acceptance credit	0	0	0	153	-	-	-	153
Consumer credit	0	0	0	4 618	-	-	-	4 618
Mortgage loans	0	3 215	0	51 938	-	-	-	55 154
Term loans	4 596	1 160	0	72 303	-	-	-	78 059
Finance leasing	0	0	0	6 728	-	-	-	6 728
Current account advances	0	0	0	5 994	-	-	-	5 994
Securitised loans	0	0	0	0	-	-	-	0
Other	0	134	0	5 323	-	-	-	5 457
Equity instruments	5 494	10	1 014	-	-	-	-	6 518
Investment contracts (insurance)	-	0	-	-	-	-	-	0
Debt instruments issued by	16 194	12 325	24 889	3 805	8 149	-	-	65 362
Public bodies	8 918	10 732	19 738	20	7 656	-	-	47 063
Credit institutions and investment firms	3 793	224	3 214	21	271	-	-	7 522
Corporates	3 484	1 369	1 938	3 765	221	-	-	10 776
Derivatives	38 670	-	-	-	-	236	-	38 906
Total carrying value excluding accrued interest income	73 242	21 388	25 903	174 625	8 149	236	-	303 544
Accrued interest income [2]	397	370	472	627	208	39	-	2 113
Total carrying value including accrued interest income	73 639	21 759	26 376	175 252	8 356	275	-	305 657
Total fair value	73 639	21 759	26 376	177 967	8 381	275		308 397
[a] *Of which reverse repos*								*11 171*
[b] *Of which reverse repos*								*4 087*

[1] Designated at fair value through profit or loss (fair value option).
[2] Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months amounted to 13 168 million euros in 2007 and 15 323 million euros in 2008.

FINANCIAL LIABILITIES (in millions of EUR)	Held for trading	Designated at fair value [1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Deposits from credit institutions and investment firms [a]	8 210	15 156	-	-	-	-	46 373	69 738 [2]
Deposits from customers and debt certificates [b]	2 452	21 927	-	-	-	-	158 188	182 567
Deposits from customers	0	14 139	-	-	-	-	114 698	128 837
Demand deposits	0	1 415	-	-	-	-	36 343	37 758
Time deposits	0	12 723	-	-	-	-	46 913	59 636
Savings deposits	0	0	-	-	-	-	27 079	27 079
Special deposits	0	0	-	-	-	-	3 444	3 444
Other deposits	0	0	-	-	-	-	919	919
Debt certificates	2 452	7 788	-	-	-	-	43 490	53 730
Certificates of deposit	0	2 245	-	-	-	-	15 697	17 942
Customer savings certificates	0	0	-	-	-	-	2 950	2 950
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	2 452	4 497	-	-	-	-	19 037	25 986
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	1 046	-	-	-	-	5 806	6 852
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	25 828	-	-	-	-	118	-	25 946
Short positions	4 809	-	-	-	-	-	-	4 809
in equity instruments	3 723	-	-	-	-	-	-	3 723
in debt instruments	1 085	-	-	-	-	-	-	1 085
Other	243	0	-	-	-	-	3 867	4 110
Total carrying value excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense [2]	311	420	-	-	-	320	954	2 006
Total carrying value including accrued interest expense	41 853	37 503	0	0	0	438	209 382	289 175
Total fair value	41 853	37 503	0	0	0	438	208 948	288 741
[a] *Of which repos*								*21 006*
[b] *Of which repos*								*8 489*
31-12-2008								
Deposits from credit institutions and investment firms [a]	461	18 973	-	-	-	-	42 491	61 926 [2]
Deposits from customers and debt certificates [b]	1 354	17 681	-	-	-	-	171 119	190 153
Deposits from customers	0	10 786	-	-	-	-	130 111	140 898
Demand deposits	0	847	-	-	-	-	39 526	40 373
Time deposits	0	9 927	-	-	-	-	57 038	66 966
Savings deposits	0	0	-	-	-	-	28 951	28 951
Special deposits	0	0	-	-	-	-	3 546	3 546
Other deposits	0	12	-	-	-	-	1 050	1 062
Debt certificates	1 354	6 894	-	-	-	-	41 007	49 255
Certificates of deposit	0	1 632	-	-	-	-	13 656	15 287
Customer savings certificates	0	0	-	-	-	-	3 072	3 072
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	1 354	4 426	-	-	-	-	15 983	21 763
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	836	-	-	-	-	8 297	9 133
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	39 577	-	-	-	-	653	-	40 230
Short positions	2 907	-	-	-	-	-	-	2 907
in equity instruments	356	-	-	-	-	-	-	356
in debt instruments	2 551	-	-	-	-	-	-	2 551
Other	244	0	-	-	-	-	3 760	4 004
Total carrying value excluding accrued interest expense	44 543	36 654	-	-	-	653	217 371	299 220
Accrued interest expense [2]	167	288	-	-	-	224	1 174	1 852
Total carrying value including accrued interest expense	44 709	36 942	-	-	-	877	218 544	301 072
Total fair value	44 709	36 942	-	-	-	877	220 319	302 846
[a] *Of which repos*								*18 260*
[b] *Of which repos*								*7 855*

[1] Designated at fair value through profit or loss (fair value option).
[2] Of which deposits from banks repayable on demand amounted to: 14 564 million euros in 2007 and 15 885 million euros in 2008.

- Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- Changes in 2008: As of 1 January 2008, full service car leases have qualified as operational leases instead of finance leases. As a result, 529 million euros has been reclassified out of loans and advances to customers (finance leasing) to property and equipment. Depreciation related to this leasing activity amounted to 125 million euros in 2008 (recorded under 'Other movements' in Note 25).
- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under '*Reclassification of financial assets*'. Endorsed by the European Union on 15 October 2008, these amendments permit an entity to reclassify financial assets in particular circumstances. Certain non-derivative financial assets measured at fair value through profit or loss (other than those classified under the fair value option) may be reclassified to '*held to maturity*', '*loans and receivables*' or '*available for sale*' in certain cases. Assets classified as '*available for sale*' may be transferred to '*loans and receivables*', likewise in certain cases. The amendments to IFRS 7 relate to additional disclosure requirements if the reclassification option is used. Following the implementation of these amendments, KBC Bank reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category, because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008.

In millions of EUR, 31-12-2008	Carrying value	Fair value
Financial assets reclassified out of 'available for sale' to 'loans and receivables'	3 633	3 633

In 2007 and 2008, unrealised losses of 107 million euros and 1 338 million euros, respectively, on these positions were recognised in equity. In the same period, impairment of 0 million euros and 85 million euros was recognised in the income statement for these positions. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. Since the assets were only reclassified on 31 December 2008, solely the way they are presented has changed, not their value.

- Fair value is defined as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced trades are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity- or client-driven.
- Financial assets and liabilities at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued according to the valuation hierarchy provided in IAS 39. This hierarchy serves as a basis for considering market participant assumptions in fair value measurements.
  1. '*Level 1 inputs*' are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. Revaluation is obtained by comparing prices; no model is involved.
  2. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique, based on directly observable or unobservable parameters:
     a. Observable inputs are also referred to as '*level 2 inputs*' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable valuation parameters are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include using discounted cashflow analysis, reference to the current fair value of another instrument that is substantially the same and third-party pricing.
     b. Unobservable inputs are also referred to as '*level 3 inputs*' and reflect the reporting entity's *own assumptions* about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). For example, proxies and correlation factors can be considered to be unobservable in the market.

The fair value measurement of commonly used financial instruments is summarised in the table.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spot, exchange traded financial futures, exchange traded options, exchange traded stocks, government bonds, other liquid bonds	Mark-to-market
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, reverse floaters, range floaters, bond future options, interest rate future options	Discounted cash flow analysis based on cash and derivative curves
		Caps & floors, interest rate options, stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS	Option pricing model based on observable parameters
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial instruments (without optional features)	Loans & deposits, simple cash flows, repo transactions, commercial paper	Discounted cash flow analysis based on cash and derivative curves
	Illiquid bonds, structured notes	Illiquid bonds, structured notes	Third-party pricing or valuation model based on observable parameters
	Asset backed securities	Asset backed securities (ABS)	Third-party pricing
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto digital FX options, FX Asian options, Fx simple/double European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, Amercian and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals	Option pricing model based on unobservable parameters
	Illiquid credit-linked instruments	Collateralised Debt Obligations (CDO)	Valuation model based on relative weighted movements of credit spread indices
	Private equity investments	Private equity and non-quoted participations	Based on EVCA (European Private Equity & Venture Capital Association)

- The total change in fair value taken to the income statement in 2008, using a level 3 valuation technique, was almost entirely accounted for by CDOs held in portfolio at group level and amounted to a negative 2.4 billion euros in 2008 (-0.2 billion euros in 2007). Stress tests performed on the current model for CDOs originated by KBC Financial Products – in which it is assumed that credit spreads will widen by another 25% (and all non-super-senior notes have been written down to zero) – result in an additional negative fair value adjustment of 186 million euros.
- Fair value adjustments (*market value adjustments*) are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.

- In addition, the following applies to financial liabilities:
  - In accordance with IFRS requirements, account was taken of the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. In 2008, the effect on fair value of such changes amounted to 371 million euros (the amount in 2007 was negligible).
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - If the effect of changes in own credit spreads is disregarded, the difference between the carrying value and the repayment price of the financial liabilities designated at fair value through profit or loss was minor.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds is for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 15: Financial assets and liabilities, breakdown by portfolio and geographic location

FINANCIAL ASSETS

In millions of EUR	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Belgium	3 046	7 021	7 299	70 167	2 893	435	-	90 860
Central and Eastern Europe and Russia	8 977	839	4 635	33 256	5 348	67	-	53 122
Rest of the world	61 028	28 125	14 609	47 881	1 055	22	-	152 720
Total carrying value, excluding accrued interest income	73 051	35 985	26 543	151 304	9 296	524	-	296 702
Accrued interest income	344	299	390	1 475	229	175	-	2 910
Total carrying value, including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	-	299 613
31-12-2008								
Belgium	5 954	6 511	9 988	71 391	1 712	141	-	95 698
Central and Eastern Europe and Russia	9 901	1 037	7 019	39 045	5 471	120	-	62 593
Rest of the world	57 387	13 840	8 896	64 189	965	- 25	-	145 252
Total carrying value, excluding accrued interest income	73 242	21 388	25 903	174 625	8 149	236	-	303 544
Accrued interest income	397	370	472	627	208	39	-	2 113
Total carrying value, including accrued interest income	73 639	21 759	26 376	175 252	8 356	275	-	305 657

* Designated at fair value through profit or loss.

FINANCIAL LIABILITIES

In millions of EUR	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Belgium	3 025	3 980	-	-	-	77	77 267	84 349
Central and Eastern Europe and Russia	667	3 031	-	-	-	38	39 499	43 235
Rest of the world	37 849	30 072	-	-	-	3	91 662	159 586
Total carrying value, excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense	311	420	-	-	-	320	954	2 006
Total carrying value, including accrued interest expense	41 853	37 503	-	-	-	438	209 382	289 175
31-12-2008								
Belgium	2 831	7 230	-	-	-	558	82 858	93 476
Central and Eastern Europe and Russia	1 548	3 422	-	-	-	27	40 963	45 961
Rest of the world	40 164	26 002	-	-	-	68	93 549	159 783
Total carrying value, excluding accrued interest expense	44 543	36 654	-	-	-	653	217 371	299 220
Accrued interest expense	167	288	-	-	-	224	1 174	1 852
Total carrying value, including accrued interest expense	44 709	36 942	-	-	-	877	218 544	301 072

* Designated at fair value through profit or loss.

Note 16: Financial assets, breakdown by portfolio and quality

In millions of EUR	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	TOTAL
31-12-2007							
Unimpaired assets	73 394	36 284	26 786	151 372	9 525	698	298 060
Impaired assets	-	-	284	3 427	0	-	3 711
Impairment	-	-	- 138	- 2 020	0	-	- 2 158
Total carrying value	73 394	36 284	26 933	152 778	9 525	698	299 613
31-12-2008							
Unimpaired assets	73 639	21 759	26 569	174 034	8 561	275	304 837
Impaired assets	-	-	914	4 303	22	-	5 239
Impairment	-	-	- 635	- 2 458	- 19	-	- 3 112
Total carrying value	73 639	21 759	26 376	175 252	8 356	275	305 657

* Designated at fair value through profit or loss.

Past due, but not impaired assets *

In millions of EUR	less then 30 days past due	more, but less then 90 days past due
31-12-2007		
Loans & advances	3 642	573
Debt instruments	0	0
Derivatives	18	0
Total	3 659	573
31-12-2008		
Loans & advances	4 663	1 136
Debt instruments	0	0
Derivatives	32	1
Total	4 695	1 137

* Financial assets that are 90 days or more past due are always considered 'impaired'.

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of '*past due*' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
- Fixed-income financial assets are impaired when impairment is identified on an individual basis. The concept of '*impairment*' is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of *impaired*.

- Information on '*maximum credit exposure*' is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

In millions of EUR	31-12-2007	31-12-2008
Maximum credit exposure		
Equity	17 947	6 518
Debt instruments	62 491	65 362
Loans & advances	194 239	192 758
Of which designated at fair value through profit or loss	24 770	9 054
Derivatives	22 026	38 906
Other (including accrued interest)	48 443	53 891
Total	345 145	357 435
Carrying value of financial assets pledged as collateral for		
Liabilities	40 383	50 206
Contingent liabilities	1 534	5 966

- Information on collateral held is provided in the following table. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the trustee in bankruptcy. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table).
- Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owners) in its original form, or, where necessary, in cash.

Collateral held (which may be sold or repledged in the absence of default by the owner)

	Fair value of collateral held		Fair value of collateral sold/repledged	
	31-12-2007	31-12-2008	31-12-2007	31-12-2008
Financial assets	41 830	18 585	15 472	6 352
Equity instruments	245	75	0	0
Debt instruments	41 207	18 129	15 472	6 352
Loans & advances	197	206	0	0
Cash	182	175	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral obtained by taking possession is not material.

Note 17: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

FINANCIAL ASSETS (In millions of EUR)	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Not more than one year	24 075	23 970	3 386	60 052	2 252	-	-	113 735
More than one but not more than five year	3 353	5 875	11 952	24 320	3 891	-	-	49 391
More than five years	7 472	6 423	10 655	67 341	3 382	-	-	95 273
Without maturity	38 495	15	939	1 066	0	698	-	41 214
Total carrying value	73 394	36 284	26 933	152 778	9 525	698	-	299 613
31-12-2008								
Not more than one year	20 078	8 033	5 199	68 919	1 634	-	-	103 864
More than one but not more than five year	6 717	5 583	11 542	27 715	3 104	-	-	54 661
More than five years	4 641	8 137	8 535	74 525	3 618	-	-	99 455
Without maturity	42 202	6	1 100	4 093	0	275	-	47 677
Total carrying value	73 639	21 759	26 376	175 252	8 356	275	-	305 657

* Designated at fair value through profit or loss.

FINANCIAL LIABILITIES (in millions of EUR)	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Not more than one year	10 831	31 707	-	-	-	-	150 808	193 346
More than one but not more than five year	3 038	1 472	-	-	-	-	21 105	25 615
More than five years	1 968	4 308	-	-	-	-	9 574	15 850
Without maturity	26 016	16	-	-	-	438	27 894	54 364
Total carrying value	41 853	37 503	-	-	-	438	209 382	289 175
31-12-2008								
Not more than one year	3 905	31 265	-	-	-	-	154 552	189 722
More than one but not more than five year	877	1 096	-	-	-	-	24 688	26 661
More than five years	269	4 581	-	-	-	-	9 104	13 954
Without maturity	39 657	0	-	-	-	877	30 201	70 735
Total carrying value	44 709	36 942	-	-	-	877	218 544	301 072

* Designated at fair value through profit or loss.

Note 18: Impairment on financial assets that are available for sale

	2007		2008	
in millions of EUR	Fixed-income securities	Shares	Fixed-income securities	Shares
Opening balance	7	55	13	124
Movements with an impact on results				
Impairment recognised	8	43	328	290
Impairment reversed	0	0	- 5	0
Movements without an impact on results				
Write-offs	0	0	0	0
Change in the scope of consolidation	0	6	0	- 2
Other	- 1	21	- 101	- 13
Closing balance	13	124	235	400

Note 19: Impairment on financial assets held to maturity

Fixed-income securities	2007	2008
In millions of EUR		
Opening balance	1	0
Movements with an impact on results		
Impairment recognised	0	15
Impairment reversed	- 1	0
Movements without an impact on results		
Write-offs	0	0
Changes in the scope of consolidation	0	0
Other	0	4
Closing balance	0	19

Note 20: Impairment on loans and receivables (balance sheet)

In millions of EUR	31-12-2007	31-12-2008
Total	2 128	2 567
Breakdown by type		
Specific impairment, on-balance-sheet lending	1 859	2 216
Specific impairment, off-balance-sheet credit commitments	84	89
Portfolio-based impairment	185	262
Breakdown by counterparty		
Impairment for loans and advances to banks	6	127
Impairment for loans and advances to customers	2 015	2 331
Specific and portfolio based impairment, off-balance-sheet credit commitments	108	109

MOVEMENTS	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairments	Total
Opening balance 1-1-2007	1 866	67	222	2 155
Movements with an impact on result				
Loan loss expenses	643	62	173	878
Loan loss recoveries	- 475	- 44	- 211	- 730
Movements without an impact on result				
Write-offs	- 235	- 1	0	- 235
Changes in the scope of consolidation	59	0	0	59
Other	1	0	2	2
Closing balance 31-12-2007	1 859	84	185	2 128
Opening balance 1-1-2008	1 859	84	185	2 128
Movements with an impact on result				
Loan loss expenses	1 262	43	156	1 461
Loan loss recoveries	- 524	- 39	- 138	- 702
Movements without an impact on result				
Write-offs	- 249	- 2	0	- 251
Changes in the scope of consolidation	9	0	15	25
Other	- 140	3	43	- 95
Closing balance 31-12-2008	2 216	89	262	2 567

Note 21: Derivative financial instruments

	Held for trading				Fair value hedge				Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
in millions of EUR	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2007																
Total	21 503	25 828	1 051 666	1 039 677	32	20	1 933	1 927	269	89	11 912	11 749	223	9	11 862	11 862
Breakdown by type																
Interest rate contracts	5 403	7 467	648 680	643 737	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Interest rate swaps	4 815	6 943	554 908	554 314	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Forward rate agreements	49	43	33 957	29 042	0	0	0	0	0	0	0	0	0	0	0	0
Futures	25	2	9 722	9 626	0	0	0	0	0	0	0	0	0	0	0	0
Options	514	471	47 538	50 371	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	9	2 555	384	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 360	1 356	209 568	211 222	0	5	129	122	73	8	1 461	1 299	0	0	0	0
Forward foreign exchange operations/Currency forwards	443	445	116 667	118 195	0	0	7	0	0	0	20	20	0	0	0	0
Currency and interest rate swaps	659	656	64 890	65 239	0	5	122	122	66	8	1 276	1 134	0	0	0	0
Futures	0	0	14	14	0	0	0	0	0	0	0	0	0	0	0	0
Options	259	255	27 998	27 774	0	0	0	0	6	1	166	145	0	0	0	0
Equity contracts	9 452	13 826	60 965	58 375	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 911	290	32 363	32 368	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	8	1	10	184	0	0	0	0	0	0	0	0	0	0	0	0
Futures	21	31	1 098	338	0	0	0	0	0	0	0	0	0	0	0	0
Options	7 277	12 909	26 628	25 028	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	234	594	867	457	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	228	15	166	195	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

In millions of EUR	Held for trading				Fair value hedge				Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2008																
Total	38 670	39 577	1 073 775	1 045 499	106	88	1 604	1 604	111	396	15 333	15 271	19	169	9 647	9 647
Breakdown by type																
Interest rate contracts	13 045	12 727	664 261	664 638	106	88	1 604	1 604	44	385	14 901	14 888	19	169	9 647	9 647
Interest rate swaps	12 143	12 037	572 287	572 037	106	88	1 604	1 604	44	385	14 877	14 888	19	169	9 647	9 647
Forward rate agreements	129	144	30 518	28 060	0	0	0	0	0	0	0	0	0	0	0	0
Futures	57	52	11 508	12 581	0	0	0	0	1	0	24	0	0	0	0	0
Options	717	490	49 943	51 337	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	5	5	622	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	2 981	2 741	221 433	222 792	0	0	0	0	67	12	431	383	0	0	0	0
Forward foreign exchange operations/Currency forwards	861	894	110 492	111 852	0	0	0	0	2	0	30	29	0	0	0	0
Currency and interest rate swaps	1 370	1 294	79 096	79 679	0	0	0	0	64	4	351	297	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	750	553	31 845	31 261	0	0	0	0	1	8	50	57	0	0	0	0
Equity contracts	9 552	11 742	47 994	52 636	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	2 654	3 500	31 257	31 387	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	25	1	8	29	0	0	0	0	0	0	0	0	0	0	0	0
Futures	3	10	285	147	0	0	0	0	0	0	0	0	0	0	0	0
Options	6 863	7 842	16 414	20 201	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	7	389	30	870	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	12 988	12 257	138 912	104 230	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	12 988	12 257	138 912	104 230	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	104	109	1 176	1 204	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 175 million euros in 2007 and 39 million euros in 2008, while the accrued interest expense came to 320 million euros in 2007 and 224 million euros in 2008.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: KBC uses this technique to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the so-called 'fair value' option): KBC uses this option to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs with embedded derivatives.

    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges. This type of hedge accounting is used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges. This technique is used primarily to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, the decision was taken to make use of the possibilities specifically provided for under IAS 39, namely the 'fair value option and the portfolio hedge of interest rate risk' according to 'the carved-out version'.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down as follows (in millions of euro):

	Inflow	Outflow
o Not more than three months:	59	-21
o More than three but not more than six months:	104	-70
o More than six months but not more than one year:	144	-193
o More than one but not more than two years:	331	-479
o More than two but not more than five years:	950	-1 069
o More than five years:	2 437	-2 689

Note 22: Other assets

In millions of EUR	31-12-2007	31-12-2008
Total	1 618	1 659
Breakdown by type	1 618	1 659
Income receivable (other than interest income from financial assets)	134	148
Other	1 484	1 511

Note 23: Tax assets and tax liabilities

In millions of EUR	31-12-2007	31-12-2008
CURRENT TAXES		
Current tax assets	102	224
Current tax liabilities	388	306
DEFERRED TAXES	477	1 512
Tax assets by type of temporary difference	1 341	2 718
Employee benefits	237	196
Losses carried forward	17	134
Tangible and intangible fixed assets	61	67
Provisions for risks and charges	42	47
Impairment for losses on loans and advances	218	257
Financial instruments at fair value through profit or loss and fair value hedges	275	765
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	397	1 126
Technical provisions	0	0
Other	94	127
Unused tax losses and unused tax credits	0	188
Deferred tax liabilities by type of temporary difference	864	1 206
Employee benefits	5	7
Losses carried forward	2	- 1
Tangible and intangible fixed assets	78	100
Provisions for risks and charges	19	20
Impairment for losses on loans and advances	105	126
Financial instruments at fair value through profit or loss and fair value hedges	174	366
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	373	475
Technical provisions	0	0
Other	107	112
Recognised in the balance sheet as follows:		
Deferred tax assets	556	1 566
Deferred tax liabilities	79	54

- The total net increase in deferred taxes (1 035 million euros) breaks down as follows:
  - increase in deferred tax assets: 1 378 million euros;
  - increase in deferred tax liabilities: 343 million euros.

- The increase in deferred tax assets with 1 378 millions euros is accounted for primarily by:
  - the increase via the income statement: +743 million euros, made up primarily by the following:
    - losses carried forward: +127 million euros,
    - impairment for losses on loans and advances: +38 million euros,
    - financial instruments at fair value through profit or loss and fair value hedges: +553 million euros;
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities: +483 million euros;
  - the increase in negative fair value changes in cashflow hedges: +212 million euros;
  - the remaining decrease (-59 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.

- The increase in deferred tax liabilities with 343 million euros is made up primarily of the following:
  - the increase via the income statement: +226 million euros, made up primarily by the following:
    - tangible and intangible fixed assets (+21 million euros),
    - impairment for losses on loans and advances (+20 million euros),
    - financial instruments at fair value through profit or loss and fair value hedges (+178 million euros);
  - the increase in deferred tax liabilities due to the rise in the market value of available-for-sale securities: +117 million euros;
  - the increase in positive fair value changes in cashflow hedges: +11 million euros;
  - the remaining decrease (-11 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.

Note 24: Investments in associated companies

In millions of EUR	31-12-2007	31-12-2008
Total	646	44
Overview of investments including goodwill		
Nova Ljubljanska banka	568	0
Other	78	44
Goodwilll on associated companies		
Gross amount	210	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	646	44
Listed	0	0
Fair value of investments in listed associated companies	0	0

MOVEMENTS	31-12-2007	31-12-2008
Opening balance (1 January)	535	646
Acquisitions	69	- 26
Carrying value, transfers	0	0
Share in the result for the period	59	2
Dividends paid	- 20	- 1
Share of gains and losses not recognized in the income statement	1	0
Translation differences	1	0
Changes in goodwill	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	- 576
Other movements	0	0
Closing balance (31 December)	646	44

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies.
- Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- In 2008, the shareholding in Nova Ljubljanska banka (NLB) was transferred to ‘Non-current assets held for sale and disposal groups’, due to the start of the structured process to sell this shareholding.

Note 25: Property and equipment and investment property

In millions of EUR	31-12-2007	31-12-2008
Property and equipment	1 760	2 482
Investment property	448	467
Rental income	29	37
Direct operating expenses from investments generating rental income	3	2
Direct operating expenses from investments not generating rental income	14	5

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2007					
Opening balance	1 017	37	490	1 544	225
Acquisitions	116	45	156	317	32
Disposals	- 29	- 2	- 86	- 118	0
Depreciation	- 60	- 30	- 75	- 166	- 10
Impairment					
recognised	0	0	0	0	- 9
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	59
Translation differences	10	0	5	15	4
Changes in the scope of consolidation	85	5	8	98	55
Other movements	144	6	- 82	69	91
Closing balance	1 283	62	415	1 760	448
Of which: accumulated depreciation and impairment	774	246	174	1 194	21
Of which expenditure on items in the course of construction	25	0	17	42	-
Of which finance lease as a lessee	4	0	0	4	-
Fair value 31-12-2007	-	-	-	-	449
2008					
Opening balance	1 283	62	415	1 760	448
Acquisitions	246	61	441	748	9
Disposals	- 30	- 6	- 198	- 233	- 1
Depreciation	- 69	- 37	- 66	- 172	- 14
Impairment					
recognised	- 2	- 1	- 3	- 6	- 1
reversed	1	0	0	1	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 41	- 4	- 12	- 57	- 8
Changes in scope of consolidation	37	3	13	54	32
Other movements	- 12	2	399	389	0
Closing balance	1 412	81	989	2 482	467
Of which: accumulated depreciation and impairment	864	236	204	1 304	51
Of which expenditure on items in the course of construction	17	0	13	30	-
Of which finance lease as a lessee	2	0	0	2	-
Fair value 31-12-2008	-	-	-	-	518

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- For changes in 2008 regarding full service car leasing, see Note 14.

Note 26: Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2007					
Opening balance	709	17	79	27	832
Acquisitions	1 045	1	40	31	1 118
Disposals	0	0	- 3	0	- 4
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 3	- 38	- 5	- 46
Impairment					
recognised	0	- 1	0	- 1	- 2
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 12	- 1	1	- 1	- 13
Changes in the scope of consolidation	0	0	1	53	53
Other movements	68	- 4	- 8	15	70
Closing balance	1 810	9	71	117	2 008
Of which: accumulated amortisation and impairment	0	6	262	23	291
2008					
Opening balance	1 810	9	71	117	2 008
Acquisitions	375	2	54	12	442
Disposals	0	0	- 5	- 4	- 9
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 2	- 44	- 7	- 54
Impairment					
recognised	- 19	0	0	- 27	- 46
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 89	0	- 1	- 1	- 91
Changes in the scope of consolidation	0	0	4	2	5
Other movements	50	0	1	- 58	- 7
Closing balance	2 127	9	79	33	2 248
Of which: accumulated amortisation and impairment	19	10	341	24	394

- The 'goodwill' column includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cash flows of the business. This method is based on long-term projections about the company's business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- At the end of 2008, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) Absolut Bank (457 million euros), ČSOB (305 million euros), K&H Bank (258 million euros), CIBANK (290 million euros), Kredyt Bank (93 million euros), KBC Asset Management NV (114 million euros) and Istrobanka (243 million euros). At the end of 2007, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) Absolut Bank (516 million euros), ČSOB (308 million euros), K&H

Bank (271 million euros), CIBANK (281 million euros), KBC Asset Management NV (115 million euros) and Kredyt Bank (94 million euros).

Note 27: Provisions for risks and charges

In millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commitments	Total
2007						
Opening balance	12	215	99	327	80	407
Movements with an impact on result						
Amounts allocated	1	64	13	78	79	157
Amounts used	- 2	- 18	- 64	- 85	0	- 85
Unused amounts reversed	0	- 18	- 2	- 21	- 53	- 74
Other movements	- 3	10	- 14	- 6	2	- 5
Closing balance	7	253	32	293	108	401
2008						
Opening balance	7	253	32	293	108	401
Movements with an impact on result						
Amounts allocated	56	146	8	210	57	267
Amounts used	- 1	- 10	- 16	- 28		- 28
Unused amounts reversed	- 6	- 91	- 2	- 98	- 55	- 154
Other movements	1	32	9	43	0	43
Closing balance	57	329	32	419	110	528

- Restructuring provisions were set aside mainly for a number of companies in the KBC Financial Products group (45 million euros at year-end 2008) and in certain Central and Eastern European subsidiaries (9 million euros in total at year-end 2008).
- In 2008, the provision for taxes and pending legal disputes went up by 76 million euros, largely on account of the amounts set aside for commercial disputes involving activities in Central and Eastern European and the merchant banking business. The main provisions for legal disputes are discussed below.
- 'Other provisions' include those set aside for miscellaneous risks and future expenditure.
- Specific impairment for off-balance-sheet credit commitments includes impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. Claims filed against KBC Bank group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable').
  Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
  No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
  All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has also provided information on the current status of the most important cases in this category.

  The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
  - Probable outflow:
    - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, heavy criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. On balance, 90 million euros' worth of provisions have been set aside for the claims still outstanding (including 84 million euros for the biggest case, known as DBI Kft. (Betonut)).
    - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in 28 cases. Besides KB Consult (placed under suspicion by an investigating magistrate in 2004), KBC Bank was also summoned to appear in the proceedings before the Bruges court sitting in chambers (*Raadkamer*). The hearing has been adjourned until 27 May 2009. A provision of 50 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The

transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.

- Possible outflow:
  - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.
- Remotely probable outflow:
  - On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and KBL European Private Bankers (formerly Kredietbank SA Luxembourgeoise) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. On 24 September 2008, the Indictment Division confirmed the decision rendered by the court sitting in chambers. The case will be heard on 3 April 2009 in the Brussels criminal court, which – based on the merits of the case – will decide whether these persons are guilty or whether they should be acquitted.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

Note 28: Other liabilities

In millions of EUR	31-12-2007	31-12-2008
Total	5 519	4 252
Breakdown by type	5 519	4 252
Retirement benefit plans or other employee benefits	1 420	1 197
Accrued charges (other than from interest expenses on financial liabilities)	1 969	1 210
Other	2 130	1 846

- For more information on retirement benefit plans or other employee benefits, see Note 29.

Note 29: Retirement benefit obligations

In millions of EUR	31-12-2007	31-12-2008
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 484	1 528
Current service Cost	85	90
Interest cost	71	79
Plan amendments	8	35
Actuarial gain/(loss)	- 83	- 23
Benefits paid	- 88	- 96
Exchange differences	- 5	- 8
Curtailment	0	0
Changes in the scope of consolidation	0	0
Other	56	6
Defined benefit obligation at end of the period	1 528	1 612
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 261	1 252
Actual return on plan assets	0	- 226
Employer contributions	55	86
Plan participant contributions	16	18
Benefits paid	- 85	- 92
Exchange differences	- 4	- 6
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	9	5
Fair value of plan assets at the end of the period	1 252	1 037
of which financial instruments issued by the bank	10	9
Reconciliation of the fair value of reimbursement rights		
Fair value of reimbursement rights at the beginning of the period	37	55
Actual return on reimbursement rights	2	2
Employer contributions	17	2
Plan participant contributions	0	0
Benefits paid	- 3	- 3
Exchange differences	0	0
Settlements	0	- 2
Changes in the scope of consolidation	0	0
Other	2	0
Fair value of plan assets at the end of the period	55	54
Funded Status		
Plan assets in excess of defined benefit obligations	- 222	- 510
Unrecognised net actuarial gains	- 243	45
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 10	- 11
Unfunded accrued/prepaid pension cost	- 475	- 476
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 451	- 475
Net periodic pension cost	- 100	- 98
Employer contributions	72	88
Exchange differences	3	0
Changes in the scope of consolidation	0	0
Other	1	10
Unfunded accrued/prepaid pension cost at the end of the period	- 475	- 476
Amounts recognised in the balance sheet		
Prepaid pension cost	9	32
Reimbursement right	- 7	- 11
Accrued pension liabilities	- 477	- 496
Unfunded accrued/prepaid pension cost	- 475	- 476

In millions of EUR	31-12-2007	31-12-2008
DEFINED BENEFIT PLANS		
Amounts recognised in the income statement		
Current service cost	85	90
Interest cost	71	79
Expected return on plan assets	- 72	- 78
Expected return on reimbursement rights	- 2	- 3
Adjustments to limit prepaid pension cost	2	0
Amortisation of unrecognized prior service costs	64	35
Amortisation of unrecognized net (gains)/losses	- 32	- 9
Employee contributions	- 17	- 18
Curtailments	0	0
Settlements	0	2
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost *	100	98
Actual return on plan assets (in %)	0%	-18,0%
Actual return on reimbursement rights (in %)	4,6%	4,3%
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	4,6%	5,1%
Expected rate of return on plan assets	5,3%	5,9%
Expected rate of salary increase	3,3%	3,5%
Rate of pension increase	0,4%	0,5%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	2	0

* Included under staff expenses (see Note 12, 'Operating expenses').

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). The assets of these first two plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- Past figures for the main items shown in the table (figures for year-end 2006, 2007 and 2008, in millions of euros):
  - Defined benefit obligations: 1 484, 1 528, 1 612;
  - Fair value of plan assets: 1 298, 1 307, 1 090;
  - Unfunded accrued or prepaid pension cost: -451, -475, -476.
- The actual return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1,75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1,75%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2008, the assets of the KBC pension fund were as follows:
  33% shares, 54% bonds, 10% real estate and 3% cash (in 2007 51% shares, 39% bonds, 8% real estate and 2% cash);
- For the KBC pension fund, a contribution of 70 million euros is expected for 2009.
- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact, this relates to the three pension schemes mentioned in the preceding paragraph, combined): +1 million euros in 2004, +2 million euros in 2005, +1 million euros in 2006, -1 million euros in 2007, and 0 million euros in 2008. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros, -7 million euros, and -86 million euros, respectively.

Note 30: Parent shareholders' equity

In number of shares	31-12-2007	31-12-2008
Total number of shares issued and fully paid up	417 232 809	582 917 643
Breakdown by type		
Ordinary shares	412 331 794	582 917 643
Mandatory convertible bonds	4 901 015	0
of which ordinary shares that entitle the holder to a dividend payment	*417 232 809*	*582 917 643*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in euros)	9,77	9,78
Number of shares issued but not fully paid up	0	0

MOVEMENTS TABLE In number of shares	Ordinary shares	Other equity instruments	Total
2007			
Opening balance	385 054 107	4 901 015	389 955 122
Issue of shares	27 277 687	0	27 277 687
Conversion of convertible bonds into shares	0	0	0
Other movements	0	0	0
Closing balance	412 331 794	4 901 015	417 232 809
2008			
Opening balance	412 331 794	4 901 015	417 232 809
Issue of shares	165 684 834	0	165 684 834
Conversion of convertible bonds into shares	4 901 015	- 4 901 015	0
Other movements	0	0	0
Closing balance	582 917 643	0	582 917 643

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table). All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- At 31 December 2008, there were 582 917 643 ordinary shares in circulation. Of these, KBC Group NV and KBC Insurance NV respectively hold 582 917 642 shares and 1 share.
- At 31 December 2008, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 9.
- Non-voting core-capital securities: on 19 December 2008, KBC signed an agreement with the Belgian Federal Government to bolster the group's financial position. Under the agreement, KBC issued 3.5 billion euros' worth of non-transferable core-capital instruments with no voting rights to the Belgian State, with the proceeds of the transaction being used to strengthen the core (tier-1) capital of its banking activities by 2.25 billion euros (converted into a capital increase carried out by KBC Group NV at KBC Bank in the same amount) and to increase the solvency margin of its insurance activities by 1.25 billion euros. Features of the transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Belgian State (Federale Participatie- en Investeringsmaatschappij).
  - Type of securities: fully paid-up new type of non-transferable, non-voting securities qualifying as core capital.
  - Classification: equal ranking (pari passu) with ordinary shares.
  - Issue price: 29.50 euros per security.
  - Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 and 125% for 2010 and subsequent years. No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - Buyback option: subject to the approval of the financial regulator, KBC may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.

- o Exchange option: after three years, KBC may at any time exchange the securities for ordinary shares on a one-for-one basis. Should KBC opt to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year, and will increase each subsequent year by 5 percentage points (with a cap at 150%).
- o The issued securities will constitute part of parent shareholders' equity, as recorded in the balance sheet under IFRS.

- On 22 January 2009, KBC signed an agreement with the Flemish Regional Government to further strengthen the group's financial position. For more information on this transaction, see Note 37.

Other notes

Note 31: Commitments and contingent liabilities

In millions of EUR	31-12-2007	31-12-2008
CREDIT COMMITMENTS - undrawn amount		
– given	41 403	43 153
1) irrevocable	34 634	36 247
2) revocable	6 769	6 905
– received	273	88
FINANCIAL GUARANTEES		
– given	13 734	15 051
– guarantees received / collateral	166 160	155 385
1) for impaired and past due assets	4 617	5 189
non-financial assets	4 304	4 011
financial assets	313	1 179
2) for assets that are not impaired or past due assets	161 543	150 196
non-financial assets	100 967	111 392
financial assets	60 577	38 805
OTHER COMMITMENTS		
– given	93	481
1) irrevocable	75	479
2) revocable	18	1
– received	0	153

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Bank NV irrevocably and unconditionally guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2008 listed in Section 5c of the Irish Companies Amendment Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies Amendment Act 1986.
  - KBC Asset Management International Limited
  - KBC Asset Management Limited
  - KBC Financial Services (Ireland) Limited
  - KBC Fund Managers Limited
  - Eperon Asset Management Limited

Note 32: Leasing

In millions of EUR	31-12-2007	31-12-2008
Finance lease receivables		
Gross investment in finance leases, receivable	7 873	8 004
At not more than one year	2 385	2 416
At more than one but not more than five years	4 087	4 204
At more than five years	1 401	1 384
Unearned future finance income on finance leases	988	1 200
Net investment in finance leases	6 883	6 765
At not more than one year	2 101	2 057
At more than one but not more than five years	3 726	3 704
At more than five years	1 055	1 004
Of which: unguaranteed residual values accruing to the benefit of the lessor	9	7
Accumulated impairment for uncollectable lease payments receivable	35	108
Contingent rents recognised in income	17	16
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases :	91	715
Not more than one year	26	217
More than one but not more than five years	55	465
More than five years	9	33
Contingent rentals recognised in income	0	3

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leasing: most finance leasing is carried out via separate companies operating mainly in Western and Central and Eastern Europe. KBC offers finance lease products ranging from equipment and rolling stock leasing, to real estate leasing and vendor finance. While equipment and rolling stock leasing is typically commercialised in Belgium through KBC group's branch network, vendor finance is designed for producers and suppliers.
- Operational leasing involves primarily full service car leasing, which is sold through the network of KBC Bank and CBC Banque branches and through an internal sales team. Full service car leasing activities are being developed in Central and Eastern Europe, too.

Note 33: Related-party transactions

In millions of EUR	31-12-2007 Parent	Subsidiaries	Associates	Other related parties	Total	31-12-2008 Parent	Subsidiaries	Associates	Other related parties	Belgian Government	Total
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS											
Assets	88	815	733	2 186	3 822	58	215	565	1 506	19 249	21 594
Loans and advances	77	40	679	1 176	1 972	1	109	554	878	304	1 845
Current accounts	0	0	0	122	122	0	0	13	84	0	97
Term loans	77	40	678	1 054	1 850	1	109	540	795	304	1 748
Finance leases	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	9	114	6	145	274	0	63	5	20	109	197
Trading securities	7	0	6	133	145	0	0	5	0	0	5
Investment securities	3	114	0	12	129	0	63	0	20	109	192
Other Receivables	2	661	48	865	1 576	58	43	6	608	18 836	19 552
Liabilities	178	548	7	5 284	6 017	318	198	142	10 051	1 467	12 176
Deposits	146	532	7	4 663	5 347	31	197	137	9 198	138	9 702
deposits	146	531	4	4 516	5 197	10	196	13	9 165	138	9 523
other borrowings	0	0	3	147	150	21	1	124	33	0	179
Other financial liabilities	0	2	0	347	349	250	1	1	249	0	501
Debt certificates	0	2	0	347	349	0	1	1	249	0	250
Subordinated liabilities	0	0	0	0	0	250	0	0	0	0	250
Share based payments	0	0	0	0	0	0	0	0	0	0	0
Granted	0	0	0	0	0	0	0	0	0	0	0
Exercised	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	32	14	0	274	321	37	0	4	604	1 328	1 974
Income statement	- 275	- 36	32	- 236	- 366	- 31	26	28	- 713	562	- 129
Net interest income	- 40	- 30	31	- 130	- 170	- 20	21	27	- 272	562	319
Gross earned premiums	0	0	0	0	0	0	0	0	0	0	0
Dividend income	17	4	2	0	23	15	2	2	9	0	28
Net fee and commission income	2	- 8	0	147	141	1	4	- 1	176	0	179
Other income	17	0	0	18	36	0	20	1	51	0	72
General administrative expenses	- 271	- 3	0	- 272	- 396	- 27	- 20	- 1	- 678	0	- 727
Guarantees											
Guarantees issued by the group	0	0	0	0	0	0	0	0	0	0	0
Guarantees received by the group	0	0	0	0	0	0	0	0	0	0	0

TRANSACTIONS WITH DIRECTORS	31-12-2007	31-12-2008
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	10	8
Short-term employee benefits	6	5
Post-employment benefits	4	3
Defined benefit plans	4	3
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	128 200	124 700
Granted	4 600	7 300
Exercised	- 8 100	- 6 400
Change in composition of directors	0	- 14 000
At the end of the period	124 700	111 600
Advances and loans granted to the directors and partners	3	3

- After the elimination of transactions with consolidated subsidiaries, the transactions that remain are primarily with associated companies (including with NLB for around 0.5 billion euros in receivables and around 4 million euros in debt), transactions with non-consolidated special purpose vehicles, transactions with KBC Ancora, Cera CVBA, MRBB, the pension funds and the directors of the group, and – since 2008 – the transaction with the Belgian State (see Note 30).
- All related-party transactions occur 'at arm's length'.
- There were no material transactions with associated companies other than shown in the table.

Note 34: Auditor's remuneration

In 2008, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren fees amounting to a total of 9 968 019 euros for standard audit services. Remuneration paid for other services came to 2 161 249 euros, viz:

- other certifications: 1 064 731 euros;
- tax advice: 309 759 euros;
- other non-audit assignments: 786 759 euros.

Note 35: List of significant subsidiaries and associated companies

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels - BE	0462.920.226	100,00
AKB "Absolut Bank" (ZAO)	Moscow - RU	--	95,00
Absolut Capital (Luxembourg) SA	Luxembourg - LU	--	95,00
Absolut Capital Trust Limited	Limasol - CY	--	95,00
Absolut Finance SA	Luxembourg - LU	--	95,00
OOO "Absolut Lizing"	Moscow - RU	--	95,00
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100,00
ADB Asia Pacific Limited	Singapore - SG	--	100,00
ADB Private Equity Limited	Jersey - GB	--	80,00
ADB Private Equity Research BVBA	Antwerp - BE	0894.314.363	80,00
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100,00
Radiant Limited Partnership	Jersey - GB	--	80,00
CBC BANQUE SA	Brussels - BE	0403.211.380	100,00
CENTEA NV	Antwerp - BE	0404.477.528	99,56
Ceskoslovenska Obchodna Banka a.s.	Bratislava - SK	--	100,00
Business Center s.r.o.	Bratislava - SK	--	100,00
CSOB Asset Management a.s.	Bratislava - SK	--	100,00
CSOB Distribution a.s.	Bratislava - SK	--	100,00
CSOB d.s.s. a.s.	Bratislava - SK	--	100,00
CSOB Factoring a.s.	Bratislava - SK	--	100,00
CSOB Leasing a.s.	Bratislava - SK	--	100,00
CSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100,00
CSOB Stavebni Sporitelna a.s.	Bratislava - SK	--	100,00
Ceskoslovenska Obchodni Banka a.s.	Prague - CZ	--	100,00
Auxilium a.s.	Prague - CZ	--	100,00
AXA, 1 SPEC OPF, AXA Invest, spol a.s.	Prague - CZ	--	100,00
Bankovni Informacni Technologie s.r.o.	Prague - CZ	--	100,00
Centrum Radlická a.s.	Prague - CZ	--	100,00
CSOB Asset Management a.s.	Prague - CZ	--	100,00
CSOB Factoring a.s.	Prague - CZ	--	100,00
CSOB Investicni Spolecnost a.s.	Prague - CZ	--	90,81
CSOB Investment Banking Service a.s.	Prague - CZ	--	100,00
CSOB Leasing a.s.	Prague - CZ	--	100,00
CSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100,00
CSOB Penzijní fond Progres a.s.	Prague - CZ	--	100,00
CSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100,00
Hypotecni Banka a.s.	Prague - CZ	--	99,90
CIBANK AD	Sofia - BG	--	77,09
Fin-Force NV	Brussels - BE	0472.725.639	90,00
IIB Finance Ireland	Dublin - IE	--	100,00
KBC Finance Ireland	Dublin - IE	--	100,00
Istrobanka a.s.	Bratislava - SK	--	100,00
Istro Asset Management sprav.spol.a.s.	Bratislava - SK	--	100,00
Istrofinance s.r.o.	Bratislava - SK	--	100,00
Istro recovery s.r.o.	Bratislava - SK	--	100,00
Istrorent s.r.o.	Bratislava - SK	--	100,00
K & H Bank Zrt.	Budapest - HU	--	100,00
K & H Alkusz Kft.	Budapest - HU	--	100,00
K & H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100,00
K & H Equities Rt.	Budapest - HU	--	100,00
K & H Ertékpapir Befektetési Alapkezelö Rt.	Budapest - HU	--	100,00
K & H Lízingadminisztrációs Rt.	Budapest - HU	--	100,00
K & H Eszközfinanszirozó Rt.	Budapest - HU	--	100,00
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest - HU	--	100,00
K & H Lizingház Rt.	Budapest - HU	--	100,00
K & H Pannonlizing Rt.	Budapest - HU	--	100,00
K & H Autófinanszirozó Pénzügyl Szolgátató Rt.	Budapest - HU	--	100,00
K & H Autópark Bérleti és Szolg Kft.	Budapest - HU	--	100,00
K & H Ingatlanlizing Kft.	Budapest - HU	--	100,00
K & H Lizing Rt..	Budapest - HU	--	100,00
Kvantum Követeléskezelö és Befektetési Rt.	Budapest - HU	--	100,00

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
Bemab NV	Brussels - BE	0403.202.670	51,86
Eperon Asset Management Limited	Dublin - IE	--	51,86
KBC Access Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Asset Management Limited	Dublin - IE	--	51,86
KBC Asset Management International Limited	Dublin - IE	--	51,86
KBC Asset Management (UK) Limited	London - GB	--	51,86
KBC Fund Managers Limited	Dublin - IE	--	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Bonds Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Cash Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Conseil Service SA	Luxembourg - LU	--	51,86
KBC Districlick Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Equity Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Fund Partners Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Invest Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Life Invest Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Money Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Renta Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsawa - PL	--	47,56
KBC Bank Deutschland AG	Bremen - DE	--	100,00
KBC Bank Funding LLC II	New York - US	--	100,00
KBC Bank Funding LLC III	New York - US	--	100,00
KBC Bank Funding LLC IV	New York - US	--	100,00
KBC Bank Funding Trust II	New York - US	--	100,00
KBC Bank Funding Trust III	New York - US	--	100,00
KBC Bank Funding Trust IV	New York - US	--	100,00
KBC Bank Ireland Plc.	Dublin - IE	--	100,00
Bencrest Properties Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100,00
Danube Holdings Limited	Dublin - IE	--	100,00
Dunroamin Properties Limited	Dublin - IE	--	100,00
Glare Nominee Limited	Dublin - IE	--	100,00
Homeloans and Finance Limited	Dublin - IE	--	100,00
IIB Finance Limited	Dublin - IE	--	100,00
IIB Asset Finance Limited	Dublin - IE	--	100,00
IIB Commercial Finance Limited	Dublin - IE	--	100,00
IIB Leasing Limited	Dublin - IE	--	100,00
Khans Holdings Limited	Dublin - IE	--	100,00
Lease Services Limited	Dublin - IE	--	100,00
IIB Homeloans and Finance Limited	Dublin - IE	--	100,00
Cluster Properties Company	Dublin - IE	--	100,00
Demilune Limited	Dublin - IE	--	100,00
IIB Homeloans Limited	Dublin - IE	--	100,00
KBC Homeloans and Finance Limited	Dublin - IE	--	100,00
Premier Homeloans Limited	Surrey - GB	--	100,00
Staple Properties Limited	Dublin - IE	--	100,00
Intercontinental Finance	Dublin - IE	--	100,00
Irish Homeloans and Finance Limited	Dublin - IE	--	100,00
Kalzari Limited	Dublin - IE	--	100,00
KBC Nominees Limited	Dublin - IE	--	100,00
Stepstone Mortgage Services Limited	Dublin - IE	--	100,00
Linkway Developments Limited	Dublin - IE	--	100,00
Maurevel Investment Company Limited	Dublin - IE	--	100,00
Meridian Properties Limited	Dublin - IE	--	100,00
Merrion Commercial Leasing Limited	Surrey - GB	--	100,00
Merrion Equipment Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Assets Limited	Surrey - GB	--	100,00
Merrion Leasing Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Industrial Limited	Surrey - GB	--	100,00
Merrion Leasing Limited	Surrey - GB	--	100,00
Merrion Leasing Services Limited	Surrey - GB	--	100,00
Monastersky Limited	Dublin - IE	--	100,00
Needwood Properties Limited	Dublin - IE	--	100,00
Perisda Limited	Dublin - IE	--	100,00
Phoenix Funding 2 Limited	Dublin - IE	--	100,00
Quintor Limited	Dublin - IE	--	100,00
Rolata Limited	Douglas - IM	--	100,00
Wardbury Properties Limited	Dublin - IE	--	100,00
KBC Bank Nederland NV	Rotterdam - NL	--	100,00
Westersingel Holding BV	Rotterdam - NL	--	100,00

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Clearing NV	Amsterdam - NL	--	100,00
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100,00
KBC Consumer Finance IFN sa	Bucarest - RO	--	99,99
KBC Credit Invesments NV	Brussels - BE	0887.849.512	100,00
KBC Financial Products UK Limited	London - GB	--	100,00
Atomium Funding Corporation SPV	George Town - KY	--	100,00
Baker Street Finance Limited	Jersey - GB	--	100,00
Dorset Street Finance Limited	Jersey - GB	--	100,00
Hanover Street Finance Limited	Jersey - GB	--	100,00
KBC Asia Fund of Funds	George Town - KY	--	98,73
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100,00
KBC Financial Products Trading Hong Kong Limited	Hong Kong - HK	--	100,00
Pembridge Square Limited	Jersey - GB	--	100,00
Picaros Funding Plc.	Dublin - IE	--	100,00
Picaros Purchasing no.3 Limited	Dublin - IE	--	100,00
Progress Capital Fund Limited	George Town - KY	--	92,85
Regent Street Finance Limited	Jersey - UK	--	100,00
Sydney Street Finance Limited	Jersey - UK	--	100,00
KBC Alternative Investment Management Belgium NV	Brussels - BE	0883.054.940	100,00
KBC Alternative Investment Management Limited	London - UK	--	100,00
KBC Alternative Investment Management HK Limited	Hong Kong - HK	--	100,00
KBC Financial Holding Inc.	Wilmington - US	--	100,00
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100,00
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100,00
KBC FP International VI Limited "Cayman VI"	George Town - KY	--	100,00
Corona Delaware LLC	Wilmington - US	--	100,00
KBC Financial Products USA Inc.	Wilmington - US	--	100,00
KBC Structured Investment Management LLC	Delaware - US	--	100,00
Nebula Holdings LLC	Wilmington - US	--	100,00
Pulsar Holdings LLC	Wilmington - US	--	100,00
Pacifica Group LLC	Wilmington - US	--	100,00
Certo Insurance Services LLC	Wilmington - US	--	100,00
Churchill Finance LLC	Saint Paul, MN - US	--	100,00
Clevedon Insurance Services LLC	New York - US	--	100,00
Dorato Insurance Services LLC	Wilmington - US	--	100,00
Equity Key LLC	Wilmington - US	--	100,00
Equity Key Real Estate Option LLC	San Diego, CA - US	--	100,00
EK002 LLC	San Diego, CA - US	--	100,00
EK003 LLC	San Diego, CA - US	--	100,00
EK045 LLC	San Diego, CA - US	--	100,00
Estate Planning LLC	Wilmington - US	--	100,00
Londsdale LLC	Wilmington - US	--	100,00
Oceanus LLC	Wisconsin - US	--	100,00
PFG Loans Funding LLC	New York - US	--	100,00
Pinnacle Financing LLC	New York - US	--	100,00
Seaboard LLC	Madison, WI - US	--	100,00
Stone River Life LLC	Wilmington - US	--	100,00
Stratford Services LLC	Wisconsin - US	--	100,00
Upright RM Holdings LLC	New York - US	--	100,00
Reverse Mortgage Trust I	New York - US	--	100,00
Upright Holdings FP Inc.	New York - US	--	100,00
World Alliance Financial Corporation	New York - US	--	100,00
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100,00
KBC Consultancy Services (Shenzhen) Limited	Shenzhen - CN	--	100,00
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100,00
KBC Investments Cayman Islands V Limited	George Town - KY	--	100,00
KBC Investments Cayman Islands VII Limited	George Town - KY	--	100,00
KBC Investments Cayman Islands VIII Limited	George Town - KY	--	100,00
KBC Investments Limited	London - GB	--	100,00
KBC International Portfolio SA	Luxembourg - LU	--	99,98
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100,00
KBC International Finance NV	Rotterdam - NL	--	100,00

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Lease Holding NV	Diegem - BE	0403.272.253	100,00
Dala Property Holding III BV	Amsterdam - NL	--	100,00
Sicalis BV	Amsterdam - NL	--	100,00
Fitraco NV	Antwerp - BE	0425.012.626	100,00
INK Consultanta - Broker de Asigurare SRL	Bucharest - RO	--	100,00
KBC Autolease NV	Diegem - BE	0422.562.385	100,00
KBC Bail Immobilier France sas	Paris - FR	--	100,00
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100,00
KBC Autolease Polska Sp z.o.o.	Warsawa - PL	--	100,00
KBC Lease France SA	Lyon - FR	--	100,00
KBC Bail France sas	Lyon - FR	--	100,00
KBC Lease (Nederland) BV	Bussum - NI	--	100,00
Cathar BV	Bussum - NI	--	100,00
Gooieen BV	Bussum - NI	--	100,00
Hospiveen BV	Bussum - NI	--	100,00
Mercala 1 BV	Bussum - NI	--	100,00
Mercala 2 BV	Bussum - NI	--	100,00
KBC Lease (UK) Limited	Surrey - GB	--	100,00
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg - DE	--	92,00
KBC Autolease (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Immobilienlease (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg - DE	--	92,00
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg - DE	--	92,00
KBC Vendor Finance (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Vendor Lease (Deutschland) GmbH	Kronberg - DE	--	92,00
Protection One Service GmbH	Kronberg - DE	--	92,00
SCS Finanzdienstleistungs- GmbH	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg - DE	--	76,00
KBC Lease España SA	Madrid - ES	--	100,00
KBC Lease Italia S.p.A.	Verona - IT	--	100,00
KBC Lease (Luxembourg) SA	Strassen - LU	--	100,00
KBC Lizing Magyarország Kereskedelmi és Szolgátató Kft.	Budapest - HU	--	100,00
KBC Vendor Lease NV	Diegem - BE	0444.058.872	100,00
Romstal Leasing IFN SA	Bucharest - RO	--	99,34
Securitas sam	Nandrin - MC	--	100,00
KBC Peel Hunt Limited	London - GB	--	99,99
KBC Peel Hunt CFD Limited	London - GB	--	99,99
Peel Hunt Nominees Limited	London - GB	--	99,99
P.H. Nominees Limited	London - GB	--	99,99
P.H. Trustees Limited	London - GB	--	99,99
KBC Pinto Systems NV	Brussels - BE	0473.404.540	60,00
KBC Private Equity NV	Brussels - BE	0403,226,228	100,00
Actief Construct NV	Lummen - BE	0476.577.628	58,20
Actief NV	Lummen - BE	0447.394.880	58,20
Actief Interim NV	Lummen - BE	0433.344.035	58,20
Boxco NV	Harelbeke - BE	0874.529.234	71,88
Allbox NV	Harelbeke - BE	0417.348.339	71,88
Verkoopkantoor Allbox en Desouter NV	Harelbeke - BE	0419.278.540	71,88
Descar NV	Harelbeke - BE	0405.322.613	71,88
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco International NV	Moorsel - BE	0444.223.079	89,54
Dynaco USA Inc.	Northbrook - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52,00
Lenaerts-Blommaert Verhuur NV	Temse - BE	0421.561.505	70,00
Container & Machine Repair NV	Temse - BE	0467.062.423	70,00
Lenimmo NV	St Niklaas - BE	0425.543.849	70,00
Lenaerts-Blommaert NV	Temse - BE	0421.561.406	70,00
Lenatrans NV	Temse - BE	0432.856.424	70,00
Mezzafinance NV	Brussels - BE	0453.042.260	100,00
Novaservis a.s.	Brno - CZ	--	94,57
2 B Delighted NV	Roeselare - BE	0891.731.886	52,78
Wever & Ducré NV	Roeselare - BE	0412.881.191	52,78
Asia Pacific Trading & Investment Co Limited	Hong Kong - HK	--	52,78
Dark NV	Adegem - BE	0472.730.389	52,78
Wever & Ducré Asia Pacific Limited	Hong Kong - HK	--	52,78
Wever & Ducré BV	Den Haag - NL	--	52,78
Wever & Ducré GmbH	Herzogenrath - DE	--	52,78
Wever & Ducré Iluminacion SL	Madrid - ES	--	52,78

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100,00
KBC Real Estate NV	Zaventem - BE	0404.040.632	100,00
Almafin Real Estate NV	Brussels - BE	0403.355.494	100,00
Immo Arenberg NV	Brussels - BE	0471.901.337	100,00
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	99,00
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	87,90
Habit Invest NV	Brussels - BE	0859.830.863	87,96
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	87,96
Novoli Investors BV	Amstelveen - NL	--	83,33
Poelaert Invest NV	Zaventem - BE	0478.381.531	99,99
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	100,00
KBC Securities NV	Brussels - BE	0437.060.521	100,00
KBC Equitas LLC	Budapest - HU	--	100,00
KBC Securitas a.d. Beograd	Belgrade - RS	--	100,00
KBC Securities Baltic Investment Company sia	Riga - LV	--	51,05
KBC Securities Ukraine LLC	Kiev - UA	--	51,05
KBC Securities Romania SA	Bucarest - RO	--	100,00
SAI Swiss Capital Asset Management SA	Bucarest - RO	--	100,00
Ligeva NV	Mortsel - BE	0437.002.519	100,00
Patria Finance a.s.	Prague - CZ	--	100,00
Patria Finance CF a.s.	Prague - CZ	--	100,00
Patria Finance Slovakia a.s.	Bratislava - SK	--	100,00
Patria Online a.s.	Prague - CZ	--	100,00
Patria Direct a.s.	Prague - CZ	--	100,00
Kredyt Bank SA	Warsawa - PL	--	80,00
Kredyt Lease SA	Warsawa - PL	--	80,00
Kredyt Trade Sp z.o.o.	Warsawa - PL	--	80,00
Reliz SA	Katowice - PL	--	80,00
Zagiel SA	Warsawa - PL	--	80,00
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100,00
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100,00
111 OBS Limited Partnership	London - GB	--	100,00
111 OBS (General Partenr) Limited	London - GB	--	100,00
Quasar Securitisation Company NV	Brussels - BE	0475.526.860	100,00
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100,00
Absolut Capital LLC (1)	Moscow - RU	--	95,00
Aldersgate Finance Limited (1)	Jersey - GB	--	100,00
Almafin Real Estate Services NV (1)	Zaventem - B	0416.030.525	100,00
Almaloisir & Immobilier sas (1)	Nice - FR	--	100,00
Apicinq NV (1)	Machelen - BE	0469.891.457	50,00
Apitri NV (1)	Diegem - BE	0469.889.873	100,00
Applied Maths Inc. (1)	Austin - US	--	50,83
Applied Maths NV (1)	St Martens Latem - BE	0453.444.712	50,83
Atomium Funding LLC (1)	Delaware - US	--	100,00
Avebury Limited (1)	Dublin - IE	--	100,00
Baker Street USD Finance Limited (1)	Jersey - GB	--	100,00
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warsawa - PL	--	80,00
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100,00
Chiswell Street Finance Limited (1)	Jersey - GB	--	100,00
City Hotels NV (1)	Zaventem - BE	0416.712.394	85,51
City Hotels International NV (1)	Zaventem - BE	0449.746.735	85,51
Clifton Finance Street Limited (1)	Jersey - GB	--	100,00
Dala Beheer BV (1)	Amsterdam - NL	--	100,00
Dala Property Holding XV BV (1)	Amsterdam - NL	--	100,00
Di Legno Interiors NV (1)	Genk - BE	0462.681.783	62,50
Distienen NV (1)	Zaventem - BE	0452.312.285	100,00
DLI International NV (1)	Genk - BE	0892.881.535	62,50
Eurincasso s.r.o. (1)	Prague - CZ	--	100,00
Fulham Road Finance Limited (1)	Jersey - GB	--	100,00
Gie Groupe KBC Paris (1)	Paris - FR	--	100,00
Immo-Antares NV (2)	Brussels - BE	0456.398.361	95,00
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	95,00
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50,00
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52
Immo-Duo NV (1)	Zaventem - BE	0435.573.154	100,00
Immo Genk-Zuid NV (1)	Zaventem - BE	0464.358.497	100,00
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	50,00
Immolease-Trust NV (1)	Zaventem - BE	0406.403.076	100,00
Immo-Llan NV (2)	Brussels - BE	0448.079.820	99,56

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
Immo Lux-Airport SA (2)	Luxembourg - LU	--	66,64
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	95,00
Immo-North Plaza NV (2)	Brussels - BE	0462.118.688	99,99
IMMO PARIJSSTRAAT NV (1)	Leuven - BE	0439.655.765	100,00
Immo-Plejaden NV (2)	Brussels - BE	0461.434.344	99,99
Immo-Quinto NV (1)	Zaventem - BE	0466.000.470	100,00
Immo-Regentschap NV (2)	Brussels - BE	0452.532.714	75,00
Immo-Tres NV (1)	Zaventem - BE	0465.755.990	100,00
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	100,00
Investool Sp.z.o.o. (1)	Przasnysz - PL	--	100,00
IPCOS BV (1)	Boxtel - NL	--	60,00
IPCOS NV (1)	Heverlee - BE	0454.964.840	60,00
K & H Feltörekvö Piaci Alapok Nyíltvégü Befektetési Alapja (1)	Budapest - HU	--	84,82
K & H Institutional Money Market Nyíltvégü Befektetési Alap (1)	Budapest - HU	--	99,96
KB-Consult NV (1)	Brussels - BE	0437.623.220	100,00
KBC Alternative Investment Management (USA) Inc. (1)	Delaware - US	--	100,00
KBCAM Australia Limited (1)	Sydney - AU	--	26,45
KBC Asia Pacific LP (1)	George Town - KY	--	92,19
KBC Bank (Singapore) Limited (1)	Singapore - SG	--	100,00
KBC Broker a.d. (1)	Belgrade - RS	--	100,00
KBC Concord Asset Management Co.Limited (1)	Tapei - TW	--	54,00
KBC Credit Arbitrage (1)	George Town - KY	--	100,00
KBC Diversified Fund (part of KBC AIM Master Fund) (1)	George Town - KY	--	100,00
KBC Dublin Capital Limited (1)	Dublin - IE	--	100,00
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100,00
KBC North American Finance Corporation (1)	Delaware - US	--	100,00
KBC Pacific Fund of Funds (1)	George Town - KY	--	100,00
KBC Private Equity Advisory Services d.o.o. (1)	Belgrade - RS	--	100,00
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100,00
KBC Private Equity Advisory Services s.r.o. (1)	Prague - CZ	--	100,00
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warsawa - PL	--	100,00
KBC Private Equity Consulting S.R.L. (1)	Bucarest - RO	--	100,00
KBC Securities B-H a.d. Banja Luka (1)	Banjaluka - BA	--	100,00
KBC Securities Baltic Investment Company Russia (1)	Moscow - RU	--	100,00
KBC Securities Corporate Finance LLC (1)	Belgrade - RS	--	60,00
KBC Securities Investment Company Cyprus Lim (1)	Nicosia - CY	--	100,00
KBC Securities LLC (1)	Moscow - RU	--	100,00
KBC Securities Montenegro a.d. Potgorica (1)	Montenegro - CS	--	100,00
KBC Securities Skopje a.d. Skopje (1)	Skopje - MK	--	100,00
KBC Special Opportunities Fund (1)	George Town - KY	--	100,00
KBC Structured Finance Limited (1)	Sydney - AU	--	100,00
KBC Vastgoed Portefeuille Nederland (1)	Rotterdam - NL	--	100,00
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100,00
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100,00
Kredietlease (UK) Limited (1)	Surrey - GB	--	100,00
Kredyt International Finance BV (1)	Rotterdam - NI	--	80,00
Kredyt Bank SA i TUiR WARTA SA (1)	Warsawa - PL	--	50,00
Lancaster Place Finance Limited (1)	Jersey - GB	--	100,00
Lancier LLC (1)	Delaware - US	--	100,00
Limis NV (1)	Roeselare - BE	0806.059.310	52,78
Liontamer Investment Management Pty Limited (1)	Sydney - AU	--	26,45
Liontamer Investment Services Limited (1)	Auckland - NZ	--	26,45
LIZAR Sp z.o.o. (1)	Warsawa - PL	--	80,00
Lombard Street Limited (1)	Dublin - IE	--	100,00
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	100,00
Luxembourg Offices Securitisations SA (1)	Luxembourg - LU	--	99,99
Mechelen City Center NV (1)	Heffen - BE	0471.562.332	100,00
Motokov a.s. (1)	Prague - CZ	--	69,10
Net Banking Sp z.o.o. (1)	Warsawa - PL	--	80,00
Newcourt Street Finance Limited (1)	Jersey - GB	--	100,00
OOO Lizingovaya Kompaniya "Absolut" (1)	Moscow - RU	--	95,00
Oxford Street Finance Limited (1)	Jersey - GB	--	100,00
Parkeergarage De Panne NV (1)	Brussels - BE	0881.909.548	90,00
Pericles Invest NV (1)	Zaventem - BE	0871.593.005	50,00
Picaros Funding LLC (1)	Wilmington - US	--	100,00
Picaros Purchasing No.1 Limited (1)	Dublin - IE	--	100,00
Picaros Purchasing No.2 Limited (1)	Dublin - IE	--	100,00
PLC Development Sp.z.o.o. (1)	Warsawa - PL	--	100,00
Quercus Scientific NV (1)	St Martens Latem - BI	0884.920.310	50,83

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
Residentie Spanjeberg NV (1)	Brussels - BE	0460.892.629	100,00
Risk Kft. (1)	Budapest - HU	--	99,96
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	70,00
SM Vilvoorde NV (1)	Zaventem - BE	0425.859.197	100,00
TEE Square Limited (1)	Road Town - VG	--	100,00
Ter Bake NV (1)	Brussels - BE	0431.795.005	100,00
Tormenta Investments Sp.z.o.o. (1)	Warsawa - PL	--	100,00
Toy Group (1)	Budapest - HU	--	100,00
Trustimmo NV (1)	Zaventem - BE	0413.954.626	100,00
Vastgoedmaatschappij NV Dorlick (1)	Zaventem - BE	0434.885.345	100,00
Vastgoedmaatschappij Manhattan-Kruisvaarten NV (1)	Zaventem - BE	0419.336.938	100,00
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	99,76
Wever & Ducré Shanghai Limited (1)	Shanghai - CY	--	52,78
Weyveld Vastgoedmaatschappij NV (1)	Zaventem - BE	0425.517.818	100,00
Willowvale Company (1)	Dublin - IE	--	100,00
ZIPP Sp.z.o.o. (1)	Przasnysz - PL	--	100,00
KBC Bank: joint subsidiaries that are proportionally consolidated			
Ceskomaravská Stavebni Sporitelna a.s.	Prague - CZ	--	55,00
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50,00
Immobiliare Novoli S.p.A.	Firenze - IT	--	44,80
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	49,00
KBC Bank: joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25,00
Barbarahof NV	Zaventem - BE	0880.789.197	30,00
Consorzio Sandonato Est	Firenze - IT	--	22,80
Covent Garden Development NV	Brussels - BE	0892.236.187	25,00
Eagle Capital Partners cjsc	Moscow - RU	--	50,00
Flex Park Prague s.r.o.	Prague - CZ	--	50,00
FM-A Invest NV	Diegem - BE	0460.902.725	50,00
Immocert t'Serclaes NV	Zaventem - BE	0433.037.989	50,00
IPF Conseil SA	Luxembourg - LU	--	50,00
Jesmond Amsterdam NV	Amsterdam - NL	--	50,00
Miedziana Sp z.o.o.	Warsawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St Niklaas - BE	0437.938.766	50,00
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	50,00
Pakobo NV	Diegem - BE	0474.569.526	50,00
Rumst Logistics NV	Machelen - BE	0862.457.583	50,00
Perifund NV	Brussels - BE	0465.369.673	50,00
Prague Real Estate NV	Zaventem - B	0876.309.678	50,00
Real Estate Administration a.s.	Prague - CZ	--	30,05
Real Estate Participation NV	Zaventem - BE	0473.018.817	50,00
Resiterra NV	Zaventem - BE	0460.925.588	50,00
Rumst Logistics II NV	Machelen - BE	0880.830.076	50,00
Rumst Logistics III NV	Machelen - BE	0860.829.383	50,00
Sandonato Parcheggi Srl	Firenze - IT	--	44,70
Sandonato Srl	Firenze - IT	--	44,70
KBC Bank: companies accounted for using the equity method			
Budatrend III. Ingatlanhasznosító Rt.	Budapest - HU	--	34,33
Foxhill Opportunity Offshore Fund	Princeton - GB	--	23,80
Giro Elszámolásforgáltató Rt.	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Résvénytársaság	Budapest - HU	--	25,00
Isabel NV	Brussels - BE	0455.530.509	25,33
Nova Ljubljanska Banka d.d.	Ljubljana - SI	--	30,57
KBC Bank: companies not accounted for using the equity method (1)			
Banking Funding Company NV	Brussels - BE	0884.525.182	22,90
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Noordoost-Antwerpen NV	Antwerp - BE	0455.474.485	21,28
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Brand and Licence Company NV	Brussels - BE	0884.499.250	20,00
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20,00
Etoiles d'Europe sas	Paris - FR	--	45,00
Justinvest Antwerpen NV	Antwerp - BE	0476.658.097	33,33
Kattendijkdok NV	Antwerp - BE	0863.854.482	39,00
Prvni Certifikacni Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	25,00
Sea Gate Logistics NV	Aalst - BE	0480.040.627	25,00

Reason for exclusion : (1) exclusion based on limited importance

(2) real estate companies and certificates where the result is not allocated to the Group

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

if the Group interest in capital and reserves exceed 2,5 million euro

if the Group interest in the result exceeds 1million euro

if the balance sheet total exceed 100 miliion euro

The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1% of the consolidated balance sheet total.

Note 36: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at KBC Group level		Comments
		31-12-2007	31-12-2008	
ADDITIONS				
Absolut Bank	Full	95,00%	95,00%	Recognised in income statement from 2H 2007
CIBANK AD (ex-Economic and Investment Bank AD)	Full	75,58%	77,09%	Recognised in income statement from 1Q 2008
CSOB a.s. (Slovak Republic)	Full	-	100,00%	Demerger from CSOB (Czech Republic) as of 1Q08
Istrobanka a.s.	Full	-	100,00%	Recognised in income statement from 2H 2008
CHANGES IN OWNERSHIP PERCENTAGE				
Nova Ljubljanska banka d.d. (group)	Equity	34,00%	30,57%	Reduced shareholding percentage following capital increase in which KBC did not participate

Note 37: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:

- 22 January 2009: the further strengthening of the capital base of KBC Bank through the issue of 2-billion-euros' worth of non-dilutive securities qualifying as core capital (subject to the issue being recognised as core capital by the Belgian financial sector regulator). The Flemish Regional Government will subscribe to the entire issue and has also undertaken to provide an additional standby facility of 1.5 billion euros, which may be used to bolster the capital base of either the group's banking activities or its insurance activities. Features of the 2-billion-euro transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Flemish Region (or a legal entity controlled by the Flemish Regional Government).
  - Type of securities: fully paid up, non-transferable, non-voting debt securities *sui generis* that qualify as core capital.
  - Classification: equal ranking (*pari passu*) with ordinary shares and with the issue of 3.5 billion euros' worth of core-capital securities to the Federale Participatie- en Investeringsmaatschappij in December 2008.
  - Issue price: 29.50 euros per security.
  - Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for financial year 2009 (coupon payment in 2010) and 125% of the dividend paid on ordinary shares for financial year 2010 and subsequent financial years (coupon payments in 2011 and later). No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
  - The issued securities will constitute part of the equity of KBC Group NV, as recorded in the balance sheet under IFRS.

Note 38: General information (IAS 1)

Name	KBC Bank NV
Incorporated	17 March 1998
Country of incorporation	Belgium
Registered office	2 Havenlaan, 1080 Brussels, Belgium
VAT	BE 0462.920.226
RLP	Brussels
Legal form	*Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a bank registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

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

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately preceding the last Thursday of April, or, if this day is a public holiday, on the business day immediately before it.
In order to be admitted to the General Meeting, the holders of bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice.
The owners of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.
Holders of book-entry bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.
Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

Company annual accounts

This section contains the company (non-consolidated) annual accounts of KBC Bank, as filed with the National Bank of Belgium.

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				9	EUR		
NAT.	Date of filing	No.	PP.	B.	D.		1.

ANNUAL ACCOUNTS

FIRM OR NAME : KBC BANK
Legal form : NV
Address : Havenlaan Nr : 2 Box :
Postal code : 1080 Municipality : Brussels
Register of corporate bodies - Chamber of Commerce : Brussels
Internetaddress : http://www.kbc.be

Company number 0462.920.226

DATE 15/12/2008 of filing of the deed op incorporation OR the most recent document stating the date on which the deed of incorporation and the deed amending the articles of association were published

ANNUAL ACCOUNT approved by the General Meeting of 29/04/2009

concerning the financial year covering the period from 01/01/2008 till 31/12/2008

Preceding period from 01/01/2007 till 31/12/2007

The amounts for the preceding period are identical to those previously published yes / ~~no~~

COMPLETE LIST with name, first names,occupation place of residence(address, number, postal code and municipality) of both the DIRECTORS OR MANAGERS of the enterprise and of the AUDITORS who audited the accounts.

CHAIRMAN OF THE BOARD OF DIRECTORS		Period on the Board in 2008	End, current term of office
Mr. Jan HUYGHEBAERT	Copernicusstraat 12, 1180 UKKEL	full year	2010
PRESIDENT OF THE EXECUTIVE COMMITTEE			
Mr. André BERGEN	Zeedijk 769/61, 8300 Knokke	full year	2010
MEMBERS:			
Mr. Herman AGNEESSENS	Edelweisslaan 47, 3080 TERVUREN	full year	2010
Mr. Franky DEPICKERE	Izegemstraat 203, 8770 INGELMUNSTER	full year	2011
Mr. Danny DE RAYMAEKER	Brabançonnestraat 84, 3000 LEUVEN	8 months	2012
Mr. Luc PHILIPS	Platanenlaan 14, 1820 PERK	full year	2010
Dhr. Frans FLORQUIN	Dewittelaan 7 bus 202, 8670 KOKSIJDE	4 months	2008
Mr. Guido SEGERS	Torenstraat 114, 3110 ROTSELAAR	full year	2009
Mr. Jan VANHEVEL	Max Hermanlei 8, 2930 BRASSCHAAT	full year	2010
Mr. Germain VANTIEGHEM	Dalemstraat 9, 3078 KORTENBERG	full year	2010
Mr. Marc WITTEMANS	Beatrijslaan 91, 3110 ROTSELAAR	full year	2010
Mr. Paul PEETERS	Molenstraat 2 A , 2811 MECHELEN	full year	2009
Mrs. Sonja DE BECKER	Meerbeekstraat 20, 3071 ERPS-KWERPS	full year	2009
Mrs. Marita ORLENT-HEYVAERT	Richard Orlentstraat 5, 2070 ZWIJNDRECHT	full year	2009
Mr. Gustaaf SAP	Stationsstraat 70, 8730 BEERNEM	full year	2009
Mr. Pierre KONINGS	Prins Van Oranjelaan 178, 1180 BRUSSEL	full year	2009
Mr. Patrick VANDEN AVENNE	Desselgemsestraat 15, 8710 OOIGEM	full year	2009
Mr. Dirk WAUTERS	Bovenbosstraat 17, 3052 BLANDEN	full year	2009
Mr. Julien DE WILDE	Jabekestraat 49, 9230 WETTEREN	full year	2010
Mr. Christian DEFRANCQ	Zonnelaan 23, 3070 KORTENBERG	full year	2010
Mr. Etienne VERWILGHEN	Rue des Foyers 3, LU 1537 LUXEMBOURG	full year	2010
Mr. Walter NONNEMAN	Molenstraat 245, 9150 KRUIBEKE	8 months	2012

AUDITOR
Ernst & Young Bedrijfsrevisoren c.v., Moutstraat 54, 9000 GENT, represented by Jean-Pierre ROMONT and/or Pierre VANDERBEEK

Total number of pages filed :
Number of pages of the standardform not being filed becouse they are not relevant :

These annual accounts include:
- the report of the statutory auditor
- annual report of the Board of Directors to the ordinary General Meeting of shareholders

A. BERGEN
President of the executive committee

J. HUYGHEBAERT
President of the board of directors

NO	0462.920.226

		Period	Preceding Period
		(in thousands of EUR)	
	Codes	05	10
1. BALANCE SHEET AFTER PROFIT APPROPRIATION			
ASSETS			
I. Cash in hand, balances at central banks and post office banks	101.000	1,306,922	511,437
II. Treasury bills eligible for refinancing at the central bank	102.000	446,343	180,795
III. Loans and advances to credit institutions	103.000	38,674,606	51,388,559
A. Repayable on demand	103.100	2,721,015	4,516,606
B. Other loans and advances (with agreed maturity dates or periods of notice)	103.200	35,953,591	46,871,953
IV. Loans and advances to customers	104.000	94,013,018	99,587,943
V. Bonds and other fixed-income securities	105.000	39,143,031	33,250,049
A. Issued by public bodies	105.100	27,974,086	21,541,742
B. Issued by other borrowers	105.200	11,168,945	11,708,307
VI. Shares and other variable-yield securities	106.000	619,507	449,845
VII. Financial fixed assets	107.000	15,821,175	16,229,745
A. Participating interests in affiliated enterprises	107.100	13,921,192	14,265,987
B. Particpating interests in other enterprises linked by participating interests	107.200	488,697	489,115
C. Other shares constituting financial fixed assets	107.300	97,823	185,316
D. Subordinated loans and advances to affiliated enterprises and other enterprises linked by participating interests	107.400	1,313,463	1,289,327
VIII. Formation expenses and intangible fixed assets	108.000	1,061	241
IX. Tangible fixed assets	109.000	724,023	769,715
X. Own shares	110.000		
XI. Other assets	111.000	1,905,023	1,830,031
XII. Deferred charges and accrued income	112.000	17,361,692	15,373,557
TOTAL ASSETS	199.000	210,016,401	219,571,917

NO	0462.920.226

	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
LIABILITIES			
I. Amounts owed to credit institutions	201.000	48,359,379	64,846,411
A. Repayable on demand	201.100	8,444,047	11,872,474
B. Amounts owed as a result of the rediscounting of trade bills	201.200		
C. Other debts (with agreed maturity dates or periods of notice)	201.300	39,915,332	52,973,937
II. Amounts owed to customers	202.000	113,990,243	110,170,708
A. Saving deposits	202.100	22,466,578	20,556,389
B. Other debts	202.200	91,523,665	89,614,319
1) Repayable on demand	202.201	26,857,564	26,322,928
2) With agreed maturity dates or periods of notice	202.202	64,666,101	63,290,552
3) As a result of the rediscounting of trade bills	202.203		839
III. Debts represented by securities	203.000	5,039,369	8,473,059
A. Bonds and other fixed-income securities in circulation	203.100	1,077,456	1,076,723
B. Other debt instruments	203.200	3,961,913	7,396,336
IV. Other liabilities	204.000	1,602,602	2,409,934
V. Accrued charges and deferred income	205.000	19,890,564	16,875,144
VI. A. Provisions for liabilities and charges	206.100	667,729	236,096
1. Pensions and similar commitments	206.101	52,017	48,848
2. Taxation	206.102	6,179	6,136
3. Other liabilities and charges	206.103	609,533	181,112
B. Deferred taxes	206.200		
VII. Fund for General Banking Risks	207.000		
VIII. Subordinated liabilities	208.000	9,699,357	7,557,458
CAPITAL AND RESERVES	290.000	10,767,158	9,003,107
IX. Capital	209.000	5,698,440	4,030,110
A. Subscribed capital	209.100	5,698,440	4,030,110
B. Uncalled capital (-)	209.200		
X. Share premium account	210.000	2,490,814	1,723,224
XI. Revaluation reserve	211.000		
XII. Reserves	212.000	2,577,904	3,249,751
A. Legal reserve	212.100	403,011	403,011
B. Reserves not available for distribution	212.200		
1. Own	212.201		
2. Other	212.202		
C.Untaxed reserves	212.300	15,312	78,834
D.Reserves available for distribution	212.400	2,159,581	2,767,906
XIII. Profit brought forward	213.000		22
TOTAL LIABILITIES	299.000	210,016,401	219,571,917

		Period	Preceding Period
		(in thousands of EUR)	
	Codes	05	10
OFF-BALANCE-SHEET HEADINGS			
I. Contingent liabilities	301.000	55,180,631	40,850,573
A. Non-negotiated acceptances	301.100	157,287	125,263
B. Guarantees in the nature of direct credit substitutes	301.200	4,283,203	6,166,019
C. Other guarantees	301.300	49,272,111	33,025,078
D. Documentary credits	301.400	1,468,026	1,534,209
E. Assets charged as collateral security on behalf of third parties	301.500	4	4
II. Commitments carrying a potential credit risk	302.000	41,453,581	46,339,054
A. Firm credit commitments	302.100	2,404,912	7,498,336
B. Commitments arising from spot purchases of securities	302.200	84,085	506,960
C. Undrawn margin on confirmed credit lines	302.300	38,957,219	38,274,089
D. Underwriting and placing commitments	302.400	7,365	59,669
E. Commitments as a result of open-ended sale and repurchase agreements	302.500		
III. Assets lodged with the credit institution	303.000	223,092,601	249,770,142
A. Assets held for fiduciary purposes	303.100	2,402,879	3,138,839
B. Safe custody and equivalent items	303.200	220,689,722	246,631,303
IV. Uncalled share capital	304.000	36,635	36,621

2. PROFIT AND LOSS ACCOUNT

	Codes	Period (in thousands of EUR)	Preceding Period (in thousands of EUR)
		05	10
I. Interest receivable and similar income	401.000	10,094,066	8,753,950
of which income from fixed-income securities	401.001	2,385,760	2,064,003
II. Interest payable and similar charges	502.000	(8,695,418)	(7,456,840)
III. Income from variable-yield securities	403.000	1,247,007	1,085,378
A. From shares and other variable-yield securities	403.100	12,936	23,474
B. From participating interests in affiliated enterprises	403.200	1,209,554	1,037,471
C. From participating interests in other enterprises linked by participating interests	403.300	16,290	15,901
D. Other shares constituing financial fixed assets	403.400	8,227	8,532
IV. Commission receivable	404.000	772,260	939,980
V. Commission payable (-)	505.000	(222,475)	(238,762)
VI. Profit (loss) on financial transactions	506.000	(34,442)	229,809
A. On the trading of securities and other financial instruments	506.100	(12,826)	161,273
B. On the disposal of investment securities	506.200	(21,616)	68,536
VII. General administrative expenses (-)	507.000	(1,635,032)	(1,506,125)
A. Remuneration, social security costs and pensions	507.100	894,742	822,085
B. Other administrative expenses	507.200	740,290	684,040
VIII. Depreciation and write-downs on formation expenses and on intangible and tangible fixed assets (-)	508.000	(46,397)	(52,063)
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'	509.000	(255,338)	(38,621)
X. Adjustments to write-downs (Write-downs (-)) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	510.000	(156,765)	(7,387)
XI. Utilization and write-back of 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'	411.000	35,204	101,541
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'	512.000	(463,150)	(57,543)
XIII. Transfer from (Transfer to) the Fund for General Banking Risks	513.000		
XIV. Other operating income	414.000	137,394	162,532
XV. Other operating charges (-)	515.000	(48,002)	(85,750)
XVI. Profit (Loss) on ordinary activities before tax	416.000	728,912	1,830,099

		Period	Preceding Period
		(in thousands of EUR)	
	Codes	05	10
2. PROFIT AND LOSS ACCOUNT			
XVII. Extraordinary income	417.000	5,520	115,191
A. Adjustment to depreciation and write-downs on intangible and tangible fixed assets	417.100		68
B. Adjustments to write-dows on financial fixed assets	417.200		
C. Adjustments to provisions for extraordinary liabilities and charges	417.300	2,318	1,990
D. Gains on the disposal of fixed assets	417.400	3,119	113,094
E. Other extraordinary income	417.500	83	39
XVIII. Extraordinary charges (-)	518.000	(1,361,015)	(58,919)
A. Extraordinary depreciation and write-downs on formation expenses, and on intangible and tangible fixed assets	518.100		
B. Write-downs on financial fixed assets	518.200	1,351,515	40,913
C. Provisions for extraordinary liabilities and charges	518.300		
D. Losses on the disposal of fixed assets	518.400	7,570	15,800
E. Other extraordinary charges	518.500	1,930	2,206
XIX. Profit (Loss(-)) for the financial year, before tax	419.000	(626,583)	1,886,371
XIX.bis A. Transfer to deferred taxes (-)	519.100		
B. Transfer from deferred taxes	419.200		
XX. Income taxes	520.000	(45,286)	(199,514)
A. Income taxes (-)	520.000	(69,469)	(205,150)
B. Adjustments to income taxes and amounts written back from tax provisions	420.200	24,183	5,636
XXI. Profit (Loss(-)) for the financial year	421.000	(671,869)	1,686,857
XXII. Transfer to untaxed reserves (-)	522.000	(35)	(66)
(+)	422.000	63,557	2,613
XXIII. Profit (Loss(-)) for the financial year, to be appropriated	423.000	(608,347)	1,689,404

NO	0462.920.226

APPROPRIATION ACCOUNT	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
A. Profit (Loss (-)) to be appropriated	600.100	(608,325)	1,689,426
1. Profit (Loss (-)) for the period available for appropriation	600.101	(608,347)	1,689,404
2. Profit (Loss (-)) brought forward from the previous financial year	600.102	22	22
B. Transfers from capital and reserves	600.200	(608,325)	
1. From capital and share premium account	600.201		
2. From reserves	600.202	(608,325)	
C. Appropriation to capital and reserves (-)	600.300		(50,005)
1. To capital and share premium account	600.301		
2. To the legal reserve	600.302		50,005
3. To others reserves	600.303		
D. Result to be carried froward	600.400		(22)
1. Profit to be carried forward (-)	600.401		(22)
2. Loss to be carried forward	600.402		
E. Shareholders' contribution in respect of losses	600.500		
F. Profit for distribution (-)	600.600		(1,639,399)
1. Dividends (a)	600.601		1,590,817
2. Directors' entitlements (a)	600.602		725
3. Other allocations	600.603		47,857

(a) only for companies with restricted liability governed by Belgian law

3. ANNEX

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS

(in thousands of EUR)

(Assets heading III.)

A. For the heading as a whole :

	Codes	Period	Preceding Period
		05	10
1. - Loans and advances to affiliated enterprises	010	20,732,687	21,195,347
- Loans and advances to other enterprises linked by participating interests	020	369,220	634,589

	Codes	Period	Preceding Period
		05	10
2. - Subordinated loans and advances	030	83,789	

B. Other loans and advances (with agreed maturity dates or periods of notice) to credit institutions

(Assets sub-heading III.B.)

	Codes	Period	Preceding Period
		05	10
1. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment	040		147

2. Analysis of loans and advances according to remaining maturity :

	Codes	Period
		05
. up to three months	050	28,661,645
. more than three months and up to one year	060	2,849,264
. more than one year and up to five years	070	3,585,779
. more than five years	080	777,457
. undated	090	79,445

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS

(Assets heading IV.)

(in thousands of EUR)

1. Loans and advances to

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	24,917,086	26,002,521
- other enterprises linked by participating interests	020	100,778	8,928

2. Subordinated loans and advances

Codes	Period 05	Preceding Period 10
030	580,002	524,567

3. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment

Codes	Period 05	Preceding Period 10
040		

4. Analysis of loans and advances according to remaining maturity :

	Codes	Period 05
. up to three months	050	46,654,564
. more than three months and up to one year	060	5,637,203
. more than one year and up to five years	070	9,819,688
. more than five years	080	27,185,188
. undated	090	4,716,375

5. Analysis of loans and advances according to type:

	Codes	Period 05
. trade bills (including own acceptances)	100	210,486
. loans and advances arising from leasing and similar claims	110	612,596
. fixe-rate loans	120	1,054,437
. mortgage loans	130	13,815,931
. other loans at terms of more than one year	140	33,135,355
. other loans and advances	150	45,184,213

6. Geographical analysis of loans and advances * :

	Codes	Period 05
. loans and advances in respect of Belgium	160	54,304,986
. loans and advances in respect of other countries	170	39,708,032

7. Breakdown of mortgage loans, with reconstitution at the institution or linked to which there are life assurance and capitalization agreements

	Codes	Period 05
a) . Capital borrowed initially	180	
b) . Reconstitution and actuarial reserves for these loans	190	
c) . Net amount outstanding for these loans (a-b)	200	

* Amount for trade bills is broken down according to beneficiary of the credit.

III. STATEMENT OF BONDS AND OTHER FIXED-YIELD SECURITIES

(Assets heading V.)

(in thousands of EUR)

1. Bonds and other securities issued by :

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	6,818,321	2,256,124
- enterprises linked by participating interests	020	4,947	5,308

2. Bonds and other securities representing subordinated loans

Codes	Period 05	Preceding Period 10
030	71,579	47,388

3. Geographical analysis of the following sub-headings :

		Belgian issuers	Foreign issuers
V.A.	. issued by public bodies	040 14,289,818	13,684,268
V.B.	. issued by other borrowers	050 5,168,852	6,000,093

4. Listing and maturity

		Carrying value	Market value
a)	. Listed securities	060 38,358,326	38,488,896
	. Unlisted securities	070 784,705	

		Period 05
b)	. Remaining maturity of up to one year	080 6,226,148
	. Remaining maturity of more than one year	090 32,916,883

5. Analysis of bonds and other securities classified according to :

		Period 05
a)	. Trading portfolio	100 11,675,572
b)	. Investment portfolio	110 27,467,459

6. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the bonds and other securities valued at market value	120	194,328
. the positive difference between the higher market value and the acquisition value of the bonds and securities valued in accordance with Article 35 ter, §2, paragraph two of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions	130	

7. Investment portfolio :

	Codes	Period 05
. the positive difference in respect of all securities whose redemption value is greater than their carrying value	140	561,077
. the negative difference in respect of all securities whose redemption value is less than their carrying value	150	737,864

8. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading V.)

(in thousands of EUR)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	010	22,136,164
Movements during the financial year :		
. acquisitions	020	10,107,790
. transfers (-)	030	(4,536,523)
. adjustments pursuant to Art. 35 ter, §4 and 5 (+/-) of the royal decree of September 23, 2992 concerning the annual accounts of credit institutions	040	76,988
. price difference (+/-)	050	(144,491)
As at the end of the financial year	099	27,639,928
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	110	
. from the trading portfolio to the investment portfolio (+)	120	
2. Repercussion on the result	130	
c) WRITE-DOWNS		
As at the end of the financial year	200	14,060
Movements during the financial year		
. recorded	210	163,593
. written back as being redundant	220	(5,095)
. written off	230	(88)
. transfer from one heading to another	240	
. price difference (+/-)	250	
As at the end of the financial year	299	172,470
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	399	27,467,458

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES

(Assets heading VI.)

(in thousands of EUR)

1. Geographical analysis of issuers :

	Codes	Period 05
- Belgian issuers	010	1,317
- foreign issuers	020	618,190

2. Listing :

		Carrying value	Market value
- listed securities	030	613,692	613,691
- unlisted securities	040	5,815	

3. Analysis of shares and other securities classified according to :

	Codes	Period 05
. Trading portfolio	050	613,673
. Investment portfolio	060	5,834

4. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the shares and other securities valued at market value	070	8,722
. the positive difference between the market value and carrying value of securities valued in accordance with Article 35 ter, §2, paraggraph two of the royal decree of 23 September 1992on the annual accounts of credit institutions	080	

5. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading VI.)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	100	26,000
Movements during the financial year :		
. acquisitions	110	
. transfers (-)	120	(11,534)
. other changes	130	(561)
As at the end of the financial year	199	13,905
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	200	
. from the trading portfolio to the investment portfolio (+)	210	
2. Repercussion on the result	220	
c) WRITE-DOWNS		
As at the end of the financial year	300	9,772
Movements during the financial year		
. recorded	310	71
. written back as being redundant	320	(1,804)
. written off	330	
. transfer from one heading to another	340	(127)
. price differences	350	159
As at the end of the financial year	399	8,071
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	499	5,834

V. STATEMENT OF FINANCIAL FIXED ASSETS

(Assets heading VII)

A1. Analysis of assets sub-headings VII.A,B,C :

(in thousands of EUR)

	Credit institutions		Other companies	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
a) Economic sector of the following holdings				
010 A. participating interests in affiliated enterprises	7,036,257	6,188,312	6,884,935	8,077,675
020 B. participating interests in other enterprises linked by participating interests	467,451	467,451	21,246	21,664
030 C. Other shares constituting financial fixed assets	25,067	101,955	72,756	83,361

	Listed	Unlisted
Codes	05	10
b) Listing		
040 A. participating interests in affiliated enterprises	836,345	13,084,847
050 B. participating interests in other enterprises linked by participating interests	10,799	477,898
060 C. Other shares constituting financial fixed assets	82,246	15,577

A2.Detailed statement of carrying value as at the end of the financial year of assets headings VII.A, B and C

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)
A. ACQUISITION VALUE			
100 As at the end of the previous financial year	14,311,668	513,400	226,571
Movements during the financial year:			
110 . Acquisitions	1,009,332	317	672
120 . Transfers and asset retirements (-)	(87,086)	(4,900)	(6,760)
130 . Transfers from one heading to another (+/-)			
199 As at the end of the financial year	15,233,914	508,817	220,483
B. SURPLUS VALUES			
200 Movements during the financial year:			
210 . Recorded			
220 . Acquired from third parties			
230 . Written off (-)			
240 . Transfers from one heading to another (+/-)			
299 As at the end of the financial year			
C. WRITE-DOWNS			
300 As at the end of the previous financial year	45,681	24,285	41,255
Movements during the financial year:			
310 . Recorded	1,267,041		84,474
320 . Written back as being redundant (-)			
330 . Acquired from third parties			
340 . Written off (-)			(3,069)
350 . Transfers from one heading to another (+/-)			
399 As at the end of the financial year	1,312,722	20,120	122,660
E. NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (A + B - C)			
499	13,921,192	488,697	97,823

ARTICLE 29, 1 UNCLAIMED AMOUNTS ON PARTICIPATIONS AND SHARES

	Companies		
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)	TOTAL
IIB Finance Ireland	1,293			
KBC Dublin Capital Plc	30			
KBC Private Equity	34,876			
African Export-Import Bank			431	
Mode Natie			0	
Mts Belgium			5	
Total	36,199		436	36,635

B. Analysis of Assets sub-heading VII D.

1. Subordinated loans and advances to:

	Credit institutions		Other enterprises	
	Period	Preceding Period	Period	Preceding Period
Codes	05	10	15	20
010 . Affiliated enterprises	817,291	831,110	421,172	383,217
020 . Participating interests in other enterprises linked by participating interests	75,000	75,000		
030 2. Amount of noted shares represented by subordinated loans and advances				

3. Detailed statement of subordinated loans and advances

	affiliated enterprises	other enterprises linked by participating interests
Codes	10	15
100 NET CARRYING VALUE AS AT THE END OF THE PREVIOUS FINANCIAL YEAR	1,214,327	75,000
Movements during the financial year		
110 . Additions	154,641	
120 . Repayments (-)	(140,296)	
130 . Recorded write downs (-)		
140 . Written back write downs		
150 . Exchange rate difference (+/-)	9,791	
160 . Other (+/-)		
199 NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR	1,238,463	75,000
200 CUMULATED WRITE DOWNS AS AT THE END OF THE FINANCIAL YEAR		

C. Declaration concerning the consolidated annual accounts

A. Information that must be supplied by all credit institutions:

Pursuant to the provisions of the Royal Decree of 23 September 1992 concerning the consolidated annual accounts of credit institutions, the credit institution draws up annual accounts and a consolidated annual report: YES / ~~NO~~*

B. Information that need only be supplied by the credit institution if it is a subsidiary or a joint subsidiary

. Name, complete address of the registered office and, if the company concerned is incorporated under Belgian law, the VAT number or the national identification number of the parent company(companies), and whether the parent company(companies) draws(draw) up and publishes(publish) consolidated annual accounts in which the annual accounts of the company are included via consolidation*:

- KBC Group NV, Havenlaan 2, 1080 Brussels, BE 403.227.515

. If the parent company(companies) is(are) incorporated under foreign law, where the above-mentioned annual accounts can be obtained*:

* If the annual accounts of the institution are consolidated at various levels, this information must be provided for the largest grouping and and for the smallest grouping of companies to which the institution belongs in its capacity as a subsidiary and for which consolidated annual accounts are drawn up and published.

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via subsidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
A. Affiliated entreprices :								
AKB Absolut Bank Moskou RU -	Ordinary	175,255,720	95.00	0.00				
Antwerpse Diamantbank NV Antwerpen BE,0404.465.551	Ordinary	7,686,400	100.00	0.00				
CBC Banque SA Brussels BE,0403.211.380	Ordinary	1,838,956	100.00	0.00				
CENTEA NV Antwerpen BE,0404.477.528	Ordinary	184,561	99.56	0.00				
Ceskoslovenska Obchodna Banka a.s. BratislavaSK,-	Ordinary	1,990	39.80	61.20				
Ceskoslovenska Obchodni Banka a.s. (CSOB) Prague CZ,-	Ordinary	5,855,000	100.00	0.00				
Covent Garden Real Estate NV Zaventem BE,0872.941.897	Ordinary	750	50.00	0.00				
CIBANK AD Sofia, BG -	Gewone	5,374,552	77.09	0.00				
Fidabel NV Brussels BE,0417.309.044	Ordinary	1	0.80	0.00	31-dec-07	EUR	143	-1
Fin-Force NV Brussels BE,0472.725.639	Ordinary	3,033	90.00	0.00				
IIB Finance Ireland Dublin IE,-	Ordinary	2,166,999	99.99	0.00				
	Ordinary AUD	700,000	100.00	0.00				
	Ordinary EUR	440,000,000	100.00	0.00				
	Ordinary GBP	104,000,000	100.00	0.00				
	Ordinary USD	116,000,000	100.00	0.00				
IMMO PARIJSSTRAAT NV Leuven BE,0439.655.765	Ordinary	54,381	100.00	0.00	31-dec-07	EUR	13,776	877
Istrobanka a.s. Bratislava SK,	Gewone	21,750	100.00	0.00				
K & H Bank Zrt. Budapest HU,	Reg. Sh. HUF 2000	66,307,204,412	100.00	0.00				
KB Consult NV Brussels BE,0437.623.220	Ordinary	364,543	99.95	0.00	31-dec-07	EUR	963	-65
KBC Alternative Investment Management Belgium NV Brussels BE, 0883.054.940	Ordinary	4,699,530	99.99	0.01				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Asset Management NV Brussels BE,0469.444.267	Cat. A shares	2,580,644	44.75	7.11				
KBC Bank Deutschland AG Bremen DE,-	Ordinary Genusrechte	567,300 97,791,500	100.00 100.00	0.00 0.00				
KBC Bank Funding LLC II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Ireland Limited Dublin IE,-	Ordinary	372,038,509	100.00	0.00				
KBC Bank Nederland NV Rotterdam NL,-	Ordinary	115,360	100.00	0.00				
KBC Bank (Singapore) Ltd. Singapore SG,-	Ordinary SGD Ordinary USD	10,000,000 35,000,000	100.00 100.00	0.00 0.00	31-dec-07	SGD	63,436	2,825
KBC Clearing NV Amsterdam NL,-	Ordinary	30,491	100.00	0.00				
KBC Commercial Finance NV Brussels BE,0403.278.488	Ordinary	120,000	100.00	0.00				
KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	134,001	99.95	0.00				
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4,999,999	99.99	0.00				
KBC Dublin Capital Plc Dublin IE,-	Ordinary	40,000	100.00	0.00	31-dec-07	USD	173	51
KBC Financial Holding Inc. Wilmington US,-	Ordinary	1,000	100.00	0.00				
KBC Financial Products UK Limited London GB,-	Ordinary	350,100,000	100.00	0.00				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Groep NV Brussels BE,0403.227.515	Ordinary	3,917,845	1.08	0.00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10,585	100.00	0.00				
KBC International Portfolio SA Luxembourg LU,-	Ordinary	16,990	86.49	13.51				
KBC Investments Hong Kong Limited Hong Kong HK, -	Ordinary	130,000,000	100.00	0.00				
KBC Investments Limited London GB,-	Ordinary	170,000,000	100.00	0.00				
KBC Lease Holding NV Leuven BE,0403.272.253	Ordinary	167,595	99.99	0.01				
KBC Lease (UK) Limited Guildford GB,	Ord. Shares of 1 GBP	7,327,865	34.00	66.00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1,000	100.00	0.00	31-dec-07	USD	25	0
KBC Peel Hunt Limited London GB,-	Ordinary	26,303,595	51.27	48.73				
KBC Pinto Systems NV Brussels BE,0473.404.540	Ordinary	2,793	49.42	10.60				
KBC Private Equity NV Brussels BE,0403.226.228	Ordinary Ordinary - 25% fully paid-up	445,416 73,502	100.00 100.00	0.00 0.00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99,947	99.95	0.05				
KBC Real Estate NV Brussels BE, 0404.040.632	Ordinary	638,358	100.00	0.00				
KBC Securities NV Brussels BE,0437.060.521	Ordinary	1,898,517	99.95	0.05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500,000	100.00	0.00	31-dec-07	AUD	365	101
KBC Vastgoedportefeuille België NV Brussels BE, 0438.007.854	Ordinary	3,000	5.19	94.81				
KBC Verzekeringen NV Leuven BE,0403.552.563	Ordinary	1	0.00	0.00	31-dec-07	EUR	1,613,428	623,864
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217,327,103	80.00	0.00				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via subsidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Ligeva NV Mortsel BE,0437.002.519	Ordinary	1	0.02	99.98				
Luxembourg Offices Securitisations SA Luxemburg LU,-	Ordinary	99	99.00	1.00	31-dec-07	EUR	-1	-10
Mezzafinance NV Brussels BE,0453.042.260	Ordinary	1	0.02	99.98				
Old Broad Street Invest NV Brussels, BE, 0871.247.565	Gewone	503,000	99.41	0.59				
Omnia CVBA Leuven BE,0413.646.305	Ordinary	1	0.01	0.00	31-dec-07	EUR	1,047	264
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	500	50.00	0.00				
Valuesource NV Brussels BE,0472.685.453	Ordinary	1	0.01	0.00	31-dec-07	EUR	1,526	662
B. Enterprises linked by participating interests >20% and <= 50%								
Banking Funding Company NV Brussels BE, 0884.525.182	Ordinary	12,870	20.93	0.00	31-dec-07	EUR	589	527
BCC Corporate NV Brussels BE, 0883.523.807	Ordinary	5,747	23.95	0.00	31-dec-07	EUR	2,194	154
Bedrijvencentrum Rupelstreek NV Aartselaar BE,0427.329.936	Ordinary	5,000	33.33	0.00	31-dec-07	EUR	429	-153
Brand and Licence Company NV Brussels BE, 0884.499.250	Ordinary	123	20.00	0.00	31-dec-07	EUR	105	44
Isabel NV Brussels BE,0455.530.509	Ordinary	253,322	25.33	0.00				
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2,722,634	30.57	0.00				
C. Enterprises linked by participating interests >10% and <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE,0428.014.676	Ordinary	40	9.52	0.00	31-dec-07	EUR	2,029	41
Bedrijvencentrum Regio Roeselare NV Roeselare BE,0428.378.724	Ordinary	500	18.52	0.00	31-dec-07	EUR	551	17
Bedrijvencentrum Vilvoorde NV Vilvoorde BE,0434.222.577	Ordinary	338	9.31	0.00	31-dec-07	EUR	1,205	145

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via subsidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Bedrijvencentrum Westhoek NV Ieper BE,0430.383.258	Ordinary	200	11.85	0.00	31-dec-07	EUR	495	8
Bedrijvencentrum Zaventem NV Zaventem BE,0426.496.726	Ordinary	350	11.64	0.00	31-dec-07	EUR	191	-141
BEM NV Brussels BE, 0461.612.904	Ordinary	1,500	6.47	0.00	31-dec-07	EUR	5,367	452
BH-Capital a.s. Prostejov CZ,-	Ordinary	717,300	14.06	0.00	31-dec-07	CZK	503,674	7,463
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16.34	0.00	31-dec-07	EUR	96	9
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10.84	0.00	31-dec-07	EUR	2,189	35
Europay Belgium CV Brussels BE,0434.197.536	Ordinary	4,857	14.17	1.81	31-dec-07	EUR	1,353	6,690
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347,886	9.75	2.24	31-mrt-08	EUR	165,748	24,349
Visa Belgium CVBA Brussels BE,0435.551.972	Ordinary	22	12.29	2.24	31-dec-07	EUR	277	12

VI §2 LIST OF ENTERPRISES IN RESPECT OF WHICH THE CREDIT INSTITUTION IS FULLY LIABLE IN ITS CAPACITY AS A PARTNER OR MEMBER WITH UNLIMITED LIABILITY

	Name, registered office, VAT number		Possible codes (*)
Codes	05		10
	IIB Finance Unltd., Sandwith Street, Dublin 2		C
	KBC Clearing, Oudezijds Voorburgwal 302, NL-1012 GL Amsterdam		C
	KBC Asset Management, Havenlaan 2,B-1080 Brussel ,	0469.444.267	C
	KBC Asset Management International Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Asset Management Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Financial Services (Ireland) Ltd, KBC House, 4 George's Dock IFSC, Dublin 1		C
	KBC Fund Managers Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Securities, Havenlaan 12, B-1080 Brussel,	0437.060.521	C
	Antwerpse Diamantbank NV, Pelikaanstraat 54, 2018 Antwerpen	0404.465.551	C
	Eperon Asset Management Ltd, Dawson Street, Dublin 2		C

(*) The annual accounts of the enterprise:

A. Will be published through a deposition in the National Bank of Belgium
B. Will be published effectively in another member state of the EC pursuant to art.3 of the directive 68/151/EEG;
C. Will be fully or proportionally consolidated in the consolidated annual statements of the enterprise which is prepared, audited and published pursuant to the Royal Decree of 29 September 1992 on the consolidated annual account of the credit institutions.

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(Assets heading VIII.)

A. Detailed statement of formation expenses

(in thousands of EUR)

	Codes	Period 05
Net carrying value as at the end of the previous financial year	010	
Movements during the financial year :		
. New costs	020	
. Whrite-downs (+/-)	030	
. Other changes (+/-)	040	
Net carrying value as at the end of the financial year :	099	
- costs incurred at establishment or capital increase, costs of issuing loans and other formation expenses	110	
- restructuring costs	120	

B. Intangible fixed assets

	Codes	Goodwill 05	Other intangible fixed assets 10	Of which provisions as compensation for bringing in transactions art 27 bis * 15
a) ACQUISITION VALUE				
As at the end of the previous financial year	210	505	1,023	
Movements during the financial year				
. additions, including own production	220	1,251	804	
. Sales and disposals (-)	230			
. transfers from one heading to another (+/-)	240	(117)		
As at the end of the financial year	299	1,639	1,827	
b) DEPRECIATION AND WRITE-DOWNS				
As at the end of the previous financial year	310	505	782	
Movements during the financial year				
. recorded	320		116	
. written back as being redundant (-)	330			
. acquired from third parties	340	1,251		
. written off (-)	350	(117)	(132)	
. transfers from one heading to another (+/-)	360			
As at the end of the financial year	399	1,639	766	
c) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) - b))	499	0	1,061	

* If there is a substantial amount under this heading

VIII. STATEMENT OF TANGIBLE FIXED ASSETS

(Assets heading IX) (in thousands of euros)

	Codes	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
		05	10	15	20	25	30
a) ACQUISITION VALUE							
As at the end of the previous financial year	010	1,085,814	16,641	89,656	11,039	247,616	
Movements during the financial year							
- acquisitions, including the resulting fixed assets	020	36,082	1,093	3,243		31,711	
- transfers and asset retirements	030	(10,836)	(1,764)	(4,889)		(69,414)	
- transfers from one heading to another	040						
As at the end of the financial year	099	1,111,060	15,970	88,010	11,039	209,913	
b) REVALUATION SURPLUSES							
As at the end of the previous financial year	110	66,312					
Movements during the financial year							
. recorded	120	(652)					
. acquired from third parties	130						
. written off (-)	140						
. transfers from one heading to another (+/-)	150						
As at the end of the financial year	199	65,660					
c) DEPRECIATION AND WRITE-DOWNS							
As at the end of the previous financial year	210	583,498	14,349	57,302	795	91,419	
Movements during the financial year							
. recorded	220	28,382	1,561	5,297	424	10,617	
. written off as being redundant	230						
. acquired from third parties	240						
. written off (-)	250	(6,845)	(1,695)	(4,876)		(2,599)	
. transfers from one heading to another (+/-)	260						
As at the end of the finacial year	299	605,035	14,215	57,723	1,219	99,437	
d) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b) - c))	399	571,685	1,755	30,287	9,820	110,476	
of which . land and buildings	410				9,820		
. plant, machinery and equipment	420						
. furniture and vehicles	430						

IX. OTHER ASSETS
(ASSETS HEADING XI)

Breakdown when there occur an important amount under this item

	05
Codes	period
010	
020	
030	
040	
050	
060	
070	

X. DEFERRED CHARGES AND ACCRUED ASSETS
(ASSETS HEADING XII)

	Codes	05
		period
1. Deferred charges	110	23,808
2. Accrued income	120	17,337,886

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS

(in thousands of EUR)

(Liabilities heading I)

A. For the heading as a whole :

	Period	Preceding period
Codes	05	10
- amounts owed to affiliated enterprises	010	4,810,467	6,527,930
- amounts owed to other enterprises linked by participating interests	020	3,718	343

B. Analysis of amounts owed, other than those repayable on demand, according to remaining maturity (Liabilities sub-headings I.B. and C.)

	Period
Codes	05
. Up to three months	110	35,593,957
. More than three months and up to one year	120	4,165,090
. More than one year and up to five years	130	105,307
. More than five years	140	50,450
. Undated	150	528

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS

(in thousands of EUR)

(Liabilities heading II)

1. Amounts owed to:

	Period	Preceding period
Codes	05	10
- affiliated enterprises	210	30,040,352	29,866,020
- other enterprises linked by participating interests	220	131,865	4,861

2. Geographical analysis of amounts owed :

	period
Codes	05
- in respect of Belgium	310	56,552,689
- in respect of other countries	320	57,437,555

3. Analysis according to remaining maturity :

	period
Codes	05
. Repayable on demand	410	26,356,856
. Up to three months	420	34,387,533
. More than three months and up to one year	430	13,093,441
. More than one year and up to five years	440	13,281,690
. More than five years	450	4,395,248
. Undated	460	22,475,476

XIII. STATEMENT OF DEBTS REPRESENTED BY SECURITIES

(Liabilities heading III.)

(in thousands of EUR)

1. Securities which, to the knowledge of the credit institution, are debts

	Codes	Period 05	Preceding period 010
- to affiliated enterprises	010	12,236	26,648
- to enterprises linked by participating interests	020	500	880.00

2. Analysis according to remaining maturity

	Codes	Period 05
. up to three months	110	3,586,407
. more than three months and up to one year	120	608,955
. more than one year and up to five years	130	236,583
. more than five years	140	607,425
. undated	150	

XIV. STATEMENT OF OTHER LIABILITIES

(Liabilities heading IV)

(in thousands of EUR)

	Codes	Period 05
1. Expired debts in relation to taxes, payments and social charges against:		
a) Tax Department	210	
b) National Office of Social Security	220	
2. Taxes :		
a) taxes payable	230	184,132
b) estimated tax liabilities	240	21,280

3. Other liabilities
Breakdown when there occur an important amount under this item

	Codes	Period 05
- holiday money, remuneration and other staff charges payable	310	239,141
- dividends payable	320	
- other	330	1,158,049
	340	

XV. ACCRUED CHARGES AND DEFERRED INCOME

(in thousands of EUR)

(Liabilities V)

	Codes	Period 05
1. Accrued charges	010	19,771,576
2. Deferred income	020	118,987

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of EUR)

(Liabilities sub-heading VI. A. 3.)

Breakdown when there occur an important amount under this item	Codes	Boekjaar 05
. Guarantee credits	110	66,419
. Litigation	120	133,877
. Provision VAT-litigation	130	12,072
. Provision disablement benefit	140	12,285
. Provisions on positions derivatives and securities	150	380,000
. Other	160	4,880

XVII. STATEMENT OF SUBORDINATED LIABILITIES

(in thousands of EUR)

(LIABILITIES heading VIII)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- debts to affiliated enterprises	210	3,706,016	3,299,768
- debts to other enterprises linked by participating interests	220		

B.

	Codes	Period 05
- Costs attendants on subordinated liabilities	310	522,090

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0001	JPY	39,638	22/04/1994-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from the 10th year
0002	GBP	543,942	19/12/2003-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank in case of Supervisory Event
0003	EUR	1,243,072	14/05/2008-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 14/05/2013 c) Call option after 5 years, yearly onwards
0004	EUR	250,000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification
0005	EUR	2,479	10/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0006	EUR	700,000	27-06-2008 - perpetual	a) Fiscal requalification Repayment possible from 27/06/2013 c) Call option after 5 years, yearly onwards
0007	EUR	16,113	01/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0008	HUF	6,323	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0009	EUR	3,201,739	Subordinated certificate On-tap Issued by KBC Bank	a) Unconditional
0010	USD	233,589	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option issued from 25/04/1989 onwards
0011	EUR	300,000	11/05/1999-perpetual Deposits originated by KBC International Finance	a) Fiscal requalification Repayment possible from the 10th year
0012	EUR	6,000	20/12/1999-20/12/2009 Deposits originated by KBC International Finance	a) Fiscal requalification
0013	EUR	1,213,164	Continuous issues Deposits originated by KBC IFIMA	a) Fiscal requalification
0014	EUR	300,000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0015	EUR	48,950	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0016	USD	9,186	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0017	CZK	93,023	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0018	SKK	99,582	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0019	SKK	48,131	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA	a) Fiscal requalification
0020	EUR	279,864	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0021	EUR	299,745	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0022	USD	430,770	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0023	EUR	76,095	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0024	EUR	25,000	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0025	USD	107,782	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification
0026	EUR	92,250	30/06/2005-30/06/2017 Deposits originated by KBC IFIMA	a) Fiscal requalification
0027	EUR	5,000	30/06/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0028	EUR	5,815	15/07/2005-15/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0029	EUR	22,105	12/08/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

A. SHARE CAPITAL

	Codes	amounts 05	number of shares 10
1. Issued capital (liabilities sub-heading IX.A.)			
- As at the end of the previous financial year	010	4,030,110	xxxxxxxxxxxxxxxxxxxx
- Movements during the financial year			
	020	1,620,398	
	030	47,932	
	040		
	050		
	060		
- As at the end of the financial year	099	5,698,440	xxxxxxxxxxxxxxxxxxxx
2. Structure of capital			
2.1. Types of share			
- ordinaries	110	5,698,440	582,917,643
	120		
	130		
	140		
	150		
2.2. Registered or bearer shares			
* Registered			
KBC Bank and Insurance Holding NV			582,917,642
KBC Insurance NV			1
TOTAL REGISTERED	160	xxxxxxxxxxxxxxxxxx	582,917,643
* Bearer	170	xxxxxxxxxxxxxxxxxx	

B. UNPAID CAPITAL

	Codes	unclaimed amounts 05	claimed, unpaid amounts 10
Shareholders who still have to pay	210		
	220		
TOTAL	299		

	Codes	total amount of the capital in possession 05	corresponding number of shares 10
C. OWN SHARES held by:			
- the credit institution	310		
- the credit institution 's subsidiaries	320		
D. Commitments to issue shares			
1. In consequence of the exercise of conversion rights:			
. Amount of current convertible loans	410		
. Amount of capital to be issued	420		
. Maximum number of shares for issue	430		
2. In consequence of the exercise of subscription rights			
. Number of outstanding subscription rights	440		
. Amount of capital to be issued	450		
. Maximum number of shares for issue	460		
E. AUTHORIZED CAPITAL UNISSUED	510	2,000,000	

	Codes	number of shares 05	voting right 10
F. SHARES OUT OF THE CAPITAL of whom:			
- shares held by the credit institution itself	610		
- sharers held by the credit institutions' daughters	620		

XIX. ANALYSIS OF THE BALANCE ACCORDING TO EUROS AND FOREIGN CURRENCY

(in thousands of EUR)

		In EUR	In foreign currency (Euro equivalent)
	Codes	05	10
TOTAL ASSETS	010	162,635,986	47,380,415
TOTAL LIABILITIES	020	156,340,472	53,675,929

XX. FIDUCIARY TRANSACTIONS IN ACCORDANCE WITH ARTICLE 27TER §1, PARAGRAPH 3

Assets and liabilities headings involved

	Period
Codes	05
110	
120	
130	
140	
150	
160	
170	
180	
190	
200	
210	
220	
230	

XXI. STATEMENT OF GUARANTEED DEBTS AND COMMITMENTS

(in thousands of EUR)

(1) Amount of subscription or carrying value of the mortgaged buildings, when these are lower
(2) Amount of subscription
(3) Book value of the premised assets
(4) Amount of the concerned assets

Collateral security constituted or irrevocably committed by the instituion on its own assets :

	Mortgages (1)	Pledges on the Trade Fund (2)	Pledges on other assets (3)	Securities on future assets (4)
Codes	05	10	15	20
a) as guarantee for debts and commitments of the credit institution				
1. Liabilities headings				
Mobilisations	010		17,919,267	
Fixed pledge in respect of European Investment Bank credit facility	020		487,700	
Asset pledge requirement KBC New York	030		53,906	
Pledge Federal Reserve Bank of New York	040		8,300,922	
Other	050		92,676	
2. Off-balance-sheet headings				
Margins in respect of options and futures	110		6,419,798	
	120			
	130			
	140			
	150			
b) as guarantee for debts and commitments of third parties				
1. Liabilities headings				
Other	210		4	
	220			
	230			
	240			
	250			
2. Off-balance-sheet headings				
	310			
	320			
	330			
	340			
	350			

XXII. STATEMENT OF CONTINGENT LIABILITIES AND OF COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

(Off-balance-sheet headings I. and II.)

(in thousands of EUR)

	Codes	Period 05	Preceding Period 010
. Total of contingent liabilities for affiliated companies	010	43,512,499	27,567,959
. Total of contingent liabilities for companies linked by participating interests	020	132,709	92,634
. Total of commitments in respect of associated companies	030	14,730	315
. Total of commitments in respect of companies linked by participating interests	040		

XXIII. DETAILS CONCERNING THE OPERATING RESULTS

(Profit and loss account headings I. to XV.)

	Codes	Period 05	Preceding Period 10
A.1. Employees in the personnel register			
a) Number of employees at the end of the period	100	11,658	11,905
b) Average number of employees calculated in full-time equivalents	101	10,543	10,570
c) Number of hours worked	102	14,741,635	14,732,074
A.1.Bis. Temporary personnel and persons placed at the disposal of the enterprise			
a) Number of employees registered at the end of the period	110		
b) Average number of employees calculated in full-time equivalents	111	12	8
c) Number of hours worked	112	22,288	16,206
d) Charges to the enterprise	113	826	554
2. Staff charges			
a) Remuneration and direct social benefits	210	644,936	579,087
b) Employer social security contributions	220	155,544	154,783
c) Employer premiums for extra-legal insurance	230	60,845	54,204
d) Other	240	30,299	31,420
e) Pensions	250	3,118	2,591
3. Provisions for pensions			
a) additions (+)	310	24,224	8,079
b) expenditure and write-backs (-)	320	(21,040)	(26,285)
B. 1. Other operating income			
Breakdown of heading XIV of the profit and loss account if there is a substantial amount under this heading	410		
	420		
	430		
2. Other operating charges (Profit and loss account heading XV.)			
. Taxation	510	45,196	83,766
. Other operating charges	520	2,805	1,984
Breakdown of heading XV if there is a substantial amount under this heading	610		
	620		
	630		
C. Operating results in respect of associated companies			
. Income	710	7,494,122	3,818,325
. Charges	720	4,901,667	5,725,619

XXIII. DETAILS CONCERNING THE OPERATING RESULTS (continued)

D. Analysis of operating income according to source

(in thousands of EUR)

	Period		Previous period	
	Belgian branches	Foreign branches	Belgian branches	Foreign branches
Codes	05	10	15	20
I. Interest receivable and similar income 010	7,704,937	2,389,129	6,155,296	2,598,654
III. Income from variable-yield securities				
. shares and other variable-yield securities 110	12,909	27	23,458	16
. participating interests in associated companies 120	1,209,554		1,037,471	
. participating interests in companies linked by participating interests 130	16,290		15,901	
. Other shares constituting financial fixed assets 140	8,226	1	8,532	
IV. Commission receivable 210	677,912	94,348	848,770	91,210
VI. Profit on financial transactions				
. on the trading of securities and other financial instruments 310	15,661	(28,487)	156,288	4,985
. on the disposal of investment securities 320	(11,882)	(9,734)	77,629	(9,093)
XIV. Other operating income 410	131,739	5,655	155,008	7,524

Remarks :

1) The attachment to the standard form must include a an analysis by category of activities and by geographical market if there are substantial differences between these markets as regards the organization of sales of products and services that are part of the credit institution's ordinary activities

2) Headings III.B. and C. of the profit and loss account must include in the attachment to the standard form a geographical distinction by refering to the place where the head office of the enterprise is situated

Geographical analysis of Profit and loss account sub-headings III.B.,C. and D.

III. Income from variable-yield securities

	B.Participating interests in affiliated enterprises	C. Participating interests in other enterprises linked by participating interests	D. Other financial fixed assets	TOTAL
Belgium	584,355	1,779	2,405	588,539
Germany	3,000			3,000
Great-Britain	3,483		171	3,654
Hungary	123,873			123,873
Ireland	70,954		3,745	74,699
Luxemburg	13,535			13,535
Netherlands	10,695		500	11,195
Panama			17	17
Poland	33,721			33,721
Portugal			1,388	1,388
Singapore		14,512		14,512
Taiwan			1	1
Czechie	365,938			365,938
Total	1,209,554	16,291	8,227	1,234,072

XXIV. STATEMENT OF FORWARD OFF-BALANCE-SHEET TRANSACTIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS NOT INVOLVING COMMITMENTS CARRYING A POTENTIAL CREDIT RISK IN THE SENSE OF OFF-BALANCE-SHEET HEADING II.

(in thousands of EUR)

TYPE OF TRANSACTION		AMOUNT AT CLOSURE DATE OF THE ACCOUNTS	OF WHICH TRANSACTIONS NOT INTENDED AS HEDGES
	Codes	05	010
1. On securities			
- Forward purchases and sales of securities	010		
2. On foreign currency (a)			
- forward exchange operations	110	103,311,999	103,311,302
- currency and interest rate swaps	120	84,908,281	84,831,121
- currency futures	130		
- currency options	140	28,109,372	28,109,372
- foreign exchange contracts	150		
3. On other financial instruments			
1. Forward interest-rate operations (b)			
- interest rate swap agreements	210	575,724,995	574,631,119
- interest rate futures	220	24,128,254	24,128,254
- forward rate agreements	230	11,530,342	11,530,342
- interest rate options	240	107,943,456	107,943,456
2. Other forward purchases or sales (c)			
- other option transactions	310	10,286,646	10,286,646
- other future transactions	320		
- other forward purchases and sales	330	618,164	

CALCULATION IN THE NOTES OF THE ACCOUNTS OF THE EFFECT ON RESULTS OF THE DEROGATION FROM THE VALUATION RULE OF ART.36BIS,§2,WITH REGARD TO FORWARD INTEREST-RATE OPERATIONS

Categories of forward interest-rate operations		Amounts as at year end of the accounts	Difference between market value and carrying value
	Codes	05	010
a) within the framework of cash management	410	23,909,620	(112,354)
b) within the framework of ALM	420	16,241,968	(525,583)

a) Amounts to be deliverd
b) Nominal/Notional reference amount
c) Purchase/Sale price agreed between the parties
d) + positive difference between market value and carrying value
- negative difference between market value and carrying value

XXV. EXTRAORDINARY RESULTS

	Codes	Period 05
A. . Gains on the transfer of fixed assets to associated companies	010	
. Losses on the transfer of fixed assets to associated companies	020	

B.

	Codes	Period 05
Other extraordinary income (subheading XVII.E. of the profit and loss account): Breakdown, if there is a substantial amount under this heading		
	110	
	120	
	130	
	140	
	150	
Other extraordinary charges (subheading XVIII.E. of the profit and loss account) : Breakdown, if there is a substantial amount under this heading		
	210	
	220	
	230	
	240	
	250	

XXVI. INCOME TAXES

	Codes	Period 05
A. Breakdown of Profit and loss account sub-heading XX.A.		
1. Income taxes for the financial year		
a. Taxes and advance levies due or paid	310	110,747
b. Capitalized excess tax and advance levies paid	320	(55,434)
c. Estimated additional charges for income taxes (recorded under Liabilities heading IV.)	330	6,096
2. Income taxes for previous financial years		
a. Additional taxes due or paid	410	2,831
b. Estimated additional taxes (recorded under Liabilities heading IV.) or additional tax for which a provision has been formed (recorded under Liabilities sub-heading VI.A.2.)	420	5,228

B. MAIN DIFFERENCES BETWEEN PROFIT BEFORE TAX AS SHOWN IN THE ANNUAL ACCOUNTS AND ESTIMATED TAXABLE PROFIT

With separate mention of the differences stemming from the lapse of time between the moment the accounting profit is determined and the moment the taxable profit is determined (insofar as the profit for the period was materially affected by taxes)

The difference between profit before tax and estimated taxable profit stems from	Codes	Period 05
- movements in taxable reserves and provisions	510	543,696
- the specific tax treatment accorded to gains and losses on shares	520	1,284,977
- the application of the FII (Franked Investment Income) system to dividends received	530	(1,115,472)
- disallowed expenditure (other than depreciation charges, impairment losses on shares and company tax)	540	23,447
	550	

XXVI. INCOME TAXES **(continued)**

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAX FOR THE FINANCIAL YEAR

	Period
Codes	05
010	3,013
020	(1,351,515)
030	2,318

D. SOURCES OF DEFERRED TAX BALANCES
(when this information is important to get an overall view of the financial position of the credit institution)

		Period
	Codes	05
1. Deferred tax debit		
. Taxed provisions and write-downs	110	90,032
. Exaggerated depreciations	120	850
	130	
	140	
	150	
2. Deferred tax credit		
. Revaluation resources to be taxed	210	9,130
	220	
	230	
	240	
	250	

XXVII. OTHER TAXES AND TAXATION FOR ACCOUNT OF THIRD PARTIES

		Period	Previous period
	Codes	05	10
A. Value-added tax, turnover tax and special taxes charged during the financial year			
1. To the enterprise (deductible)	310	15,862	27,837
2. By the enterprise	320	27,972	34,977
B. Amounts withheld for account of third parties for:			
1. Payroll withholding taxes	410	165,475	165,885
2. Withholding taxes on investment income	420	208,647	167,342

XXVIII. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET THAT ARE NOT REFERRED TO IN THE SECTION ABOVE OR UNDER OFF-BALANCE-SHEET HEADINGS

	Codes	Period 05
A. Material commitments to purchase fixed assets	010	
	020	
	030	
	040	
Material commitments to sell fixed assets	110	
	120	
	130	
	140	
B. Material disputes (*) and other important commitments (**) :	210	
	220	
	230	
	240	
C. In the event, a brief description of the supplementary retirement or survivor's pensions for staff or senior management, with an indication of the measures designed to cover the attendant costs (***).	310	
	320	
	330	
	340	
Pensions paid for by the credit institution itself		
. Estimated amount of the commitments for the credit institution stemming from work already performed	410	
. Basic amount and how it was calculated	420	

(*)
The most significant, pending legal disputes are commented on below. Claims filed against KBC Bank and its companies are treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable'))

Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies').
No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has also provided information on the current status of the most important cases in this category.

These cases are as follows :
the information provided is limited in order not to prejudice the position of the group in ongoing litigation

Possible outflow
In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.

Remotely probable outflow
On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and KBL European Private Bankers (formerly Kredietbank SA Luxembourgeoise) (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial.
All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. On 24 September 2008, the Indictment Division upheld the decision rendered by the court sitting in chambers. In the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB, and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

(**)
The credit institution irrevocably guarantees all the commitments of the Irish companies named below as at 31 December 2008; these companies may accordingly be exempted from certain publication requirements under section 17 of the Irish Companies Amendment Act

KBC Bank Ireland Plc
KBC Asset Management International Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited
Eperon Asset Management Ltd

The credit institution irrevocably guarantees all the commitments of the companies named below as at 31 December 2008; these companies are be exempted from publication on consolidated basis.

KBC Asset Management NV
KBC Securities NV
Antwerpse Diamantbank NV

(***)
A system of extra pension provision exists for all members of staff, including old-age pensions, death benefits, pensions for the surviving partner and orphan's pensions The amount of these provisions depends on the final average salary, the number of years in service and the age of the person when he/she takes retirement, this within the scope of a 'defined benefits' scheme

These pension provisions are financed entirely by the employer by means of yearly sums charged against profit. These sums, calculated on actuarial basis according to the the 'aggregate cost' method, are transferred to KBC's Pensioenfonds OFP, which is responsible for the supervision of the provisions that are set aside, the payment of the extra pensions and the relevant administration

The directors on the Executive Committee are also entitled to extra pension provisions, based on similar principles. A group assurance policy has been taken out for this purpose.

There is also a supplementary pension plan (capitalization system) based exclusively on personal contributions by staff made through the deduction of sums from pay. The credit institution guarantees the capitalization of the contributions made at an interest rate of 4.75% a year for the period through 30 June 1999 and at an interest rate of 3.75% from 1 july 1999,which is effective on disbursement.
The management of the provisions set aside for this purpose, the payment of pensions and the relevant administration are entrusted to the OFP Aanvullend pensioenfonds KBC and OFP Aanvullend Pensioenfonds Directie KBC, respectively.

XXIX. FINANCIAL RELATIONSHIPS

A. WITH DIRECTORS AND PARTNERS
B. WITH NATURAL OR LEGAL PERSONS WHO CONTROL THE COMPANY DIRECTLY OR INDIRECTLY, AND ARE NOT ASSOCIATED COMPANIES
C. WITH OTHER COMPANIES THAT DIRECTLY OR INDIRECTLY CONTROL THE PERSONS REFERRED TO UNDER B.

	Codes	Period 05
A. 1. Amounts receivable from the above-mentioned persons	510	
2. Liabilities incurred in their favour	520	2,511
3. Other significant commitments entered into in their favour	530	
Most important conditions in relation to A1, A2 en A3.		
B. 1.The amount of direct and indirect remuneration and of pensions charged to the profit and loss account, on the understanding that this does not relate exclusively or primarily to the situation of a single identifiable person:		
- to the directors and managers	610	7,340
- to former directors and managers	620	560
D. Note regarding assignments carried out by the auditor and work performed by companies with which the auditor has entered into professional co-operation arrangements. Pursuant to Article 134 of the Companies Code, shown below is: The total of the fees paid by KBC Bank NV to Ernst&Young and to the companies with which it has entered into a professional co-operation arrangement :		
- Fees paid for the statutory audit assignment	810	1,789
- Fees paid for other certifications	820	464
- Fees paid for tax advice:	830	27
- Fees paid for other non-audit services	840	20

SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise	310		

I. STATEMENT REGARDING THE COMPANY'S WORKFORCE

A. EMPLOYEES IN THE PERSONNEL REGISTER

1. During the present and the preceding financial period	Codes	1. Full-time *period*	2. Part-time *period*	3. Total (T) or total in full-time equivalents (FTE) *period*	4. Total (T) or total in full-time equivalents (FTE) *period*
Average number of employees	100	7,146	3,793	9,763 (FTE)	9,901 (FTE)
Number of actual hours worked	101	10,247,662	3,151,399	13,399,061 (T)	13,566,132 (T)
Staff charges (in thousands of EUR)	102	604,859	186,044	790,903 (T)	729,050 (T)
Benefits in addition to wages (in thousands of EUR)	103	10,788	3,318	14,106 (T)	14,144 (T)

2. As at the closing date of the financial period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees recorded in the personnel register	105	7,160	3,704	9,727.5
b. By nature of the employment contract				
Contract of unlimited duration	110	7,159	3,704	9,726.5
Contract of limited duration	111	1		1.0
Contract for specific work	112			
Substitute's contract	113			
c. By sex and level of education				
Men :	120	4,610	827	5,152.4
Primary education	1200			
Secondary education	1201	1,040	475	1,340.6
Higher, non-university education	1202	2,501	285	2,697.8
University education	1203	1,069	67	1,114.0
Women	121	2,550	2,877	4,575.1
Primary education	1210			
Secondary education	1211	479	1,094	1,192.7
Higher, non-university education	1212	1,474	1,408	2,498.8
University education	1213	597	375	883.7
d. By professional category				
Senior management	130	98	1	98.8
Employees	134	7,062	3,703	9,628.7
Workers	132			
Other	133			

B. TEMPORARY PERSONNEL AND PERSONS PLACED AT THE DISPOSAL OF THE ENTERPRISE

During the financial period	Codes	1. Temporary personnel	2. Persons placed at the disposal of the enterprise
Average number of personnel employed	150	12	
Number of hours worked	151	22,288	
Charges to the enterprise (in thousands of EUR)	152	826	

II. CHANGES IN THE WORKFORCE DURING THE FINANCIAL PERIOD

A. NEW EMPLOYEES

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of new employees entered in the personnel register during the financial period	205	499	34	526.3
b. By nature of the employment contract				
Contract of unlimited duration	210	498	34	525.3
Contract of limited duration	211	1		1.0
Contract for specific work	212			
Substitute's contract	213			

B. Employees leaving the company

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees whose contract termination date as entered in the personnel register was in the financial period	305	668	154	775.6
b. By nature of the employment contract				
Contract of unlimited duration	310	667	154	774.6
Contract of limited duration	311	1		1.0
Contract for specific work	312			
Substitute's contract	313			
c. By reason for contract termination				
Pension	340	278	19	290.6
Early retirement	341			
Dismissal	342	32	7	37.3
Other reason	343	358	128	447.7
Of which: number of former employees who continued rendering services to the enterprise at least on a part-time basis as self-employed persons	350	1		1.0

III. STATEMENT CONCERNING THE IMPLEMENTATION OF MEASURES STIMULATING EMPLOYMENT DURING THE FINANCIAL PERIOD

Total in respect of formal continuous professional training initiatives for employees charged to the employer	Codes	**Men**	Codes	**Women**
1. Number of employees	5801	2,969	5811	2,900
2. Number of training hours	5802	97,306	5812	113,047
3. Charges to company (in thousands of EUR)	5803	9,362	5813	9,144
– gross costs directly related to the training course	58031	9,174	58131	8,961
– contributions and payments made to group funds	58032	188	58132	183
– subsidies received (deducted)	58033		58133	

Total in respect of less formal and informal continuous professional training initiatives for employees charged to the employer	Codes	**Men**	Codes	**Women**
1. Number of employees	5821	1,746	5831	1,956
2. Number of training hours	5822	77,278	5832	123,560
3. Charges to company (in thousands of EUR)	5823	5,911	5833	6,621

Total in respect of initial professional training initiatives charged to the employer	Codes	**Men**	Codes	**Women**
1. Number of employees	5841		5851	
2. Number of training hours	5842		5852	
3. Charges to company (in thousands of EUR)	5843		5853	

Valuation Rules - KBC Bank NV

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 annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

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

Amounts receivable arising from advances and 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 recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans 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 recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised 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.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the bank's own loan receivables are booked as guarantees given or received. Transactions relating to the trading book are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

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

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

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the CBFA. 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.

Amounts provisioned for country risks are broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate.

SECURITIES

Securities are recognised 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, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*
Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost. Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

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

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

Software developed in-house is charged immediately to the profit and loss account. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Exploitatie NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

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. All tangible fixed assets are depreciated on an accruals basis during the first year of investment. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately 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 that 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.

CREDITORS

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

PROVISIONS FOR LIABILITIES & CHARGES

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

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

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

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36 bis of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

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

the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

the transaction must be recorded in the books as a hedge from its inception;
there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

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

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

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

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

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

3. Changes in valuation rules

There were no changes to the valuation rules with a material impact on the figures.

COMMENTS ON THE NON-CONSOLIDATED ANNUAL ACCOUNTS OF KBC BANK NV - 2008

PROFIT AND LOSS ACCOUNT – NV ('000 EUR)	2008	2007	change	in %
Gross income from ordinary activities	3 298 392	3 476 047	-177 655	-5.11%
General administrative expenses	-1 729 430	-1 643 938	-85 492	5.20%
OPERATING RESULT	**1 568 962**	**1 832 109**	**-263 147**	**-14.36%**
Write-downs and provisions	-840 050	-2 010	- 838 038	...
PROFIT FROM ORDINARY ACTIVITIES	**728 912**	**1 830 099**	**-1 101 187**	**...**
Extraordinary result	-1 355 496	56 272	-1 411 768	---
Taxes	+18 237	-196 967	215 204	---
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**-608 347**	**1 689 404**	**-2 297 750**	**---**

The results were down 2 298 million euros on the year-earlier figure, and represented a loss for the financial year of 608 million euros.

Gross income came to 3 298 million euros, 5.11% lower than in 2007. Dividend income went up by 161.6 million euros. Net interest earnings rose by 101 million euros, but this was offset by considerably lower earnings on financial transactions which amounted to -264 million euros and lower net commission and other operating income which totalled -176.5 million euros.

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') rose in 2008 by 85 million euros or 5.2% to 1 729 million euros. The increase is mainly attributable to other administrative expenses (56 million euros) and staff expenses (72.6 million euros). Other operating charges, on the other hand, fell by 37.7 million euros.

On balance, the operating result went down by 263 million euros or 14.36%. Taking into account the considerable net transfer to write-downs and provisions (840 million euros in 2008 compared with 2 million euros in 2007), profit from ordinary activities fell to 729 million euros, 1 101 million euros down on the 2007 figure.

Extraordinary profit decreased from +56 million euros to -1 355 million euros, owing to provisions set aside for considerable write-downs on financial fixed assets.

Income tax charges fell by 215 million euros to 18 million euros, consequent on the drop in taxable profit.

GROSS INCOME FROM ORDINARY ACTIVITIES

Gross income comprises net interest income, dividends received, earnings on financial transactions, other commission and operating income (headings I through VI and XIV).

The 5.11% decrease in gross income – to 3 298 million euros – is the result of:

- the 161.6-million-euro increase in income from variable-yield securities (heading III). Dividends received went up due to the high dividend payments made by the subsidiaries on account of their increased profit figures for the 2007 financial year.

- the 101.5-million-euro increase in net interest income (headings I and II). Net interest income accounted for 42.4% of gross income from ordinary activities, up from 37.32%.
- the 264-million-euro decline in income from financial transactions. Income from derivatives transactions fell by 264.4 million euros to 60.2 million euros. Trading transactions in fixed-income and variable-yield securities amounted to -73 million euros, a slight improvement on the loss of 100.2 million euros in 2007. In 2008, there was a loss of 21.6 million euros on the sale of government securities in the investment portfolio. The high capital gains realised in 2007 on variable-yield securities resulting primarily from the sale of Intesa San Paolo shares for 207 million euros was largely offset by the 133-million-euro losses on the sale of long-term bonds (due mainly to positions being scaled down, given the anticipated trend in interest rates).
- the 176.5-million-euro, or 20.4%, decrease in net commission and other operating income (headings IV, V and XIV). This decrease can be put down in part to the lower commission from sales of investment funds.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') rose in 2008 by 85 million euros or 5.2%.

Operating charges (headings VII and XV) went up by 91 million euros or 5.7%. The transfer of employees to the cost-sharing structure was offset by higher amounts being billed via this structure. This is also the case for corporation taxes.

At KBC Bank Belgium, staff expenses rose as a result of the reduction in the number of full-time equivalents owing to personnel being transferred to KBC Group, as well as of negative factors, such as indexation (25 million euros) and other pay increases. In the branches abroad, there was an increase of 9.7 million euros.

Depreciation (heading VIII) fell by 5.6 million euros.

The cost/income ratio rose from 47.29% to 52.43% in 2008.

WRITE-DOWNS AND PROVISIONS

Total transfers to and from write-downs and provisions (heading IX through XIII) resulted in a significant net transfer of 840 million euros, compared with a net transfer of 2 million euros in 2007.

Amounts written down for credit risks (heading IX) went up considerably owing to impairment losses on loans classified as 'uncertain and irrecoverable'. Amounts written down for commercial risks not assessed on an individual basis fell slightly (by 8.5 million euros). Write-downs on securities in the investment portfolio also rose, from 7.3 million euros in 2007 to 156.7 million euros in 2008. The main item related to valuation markdowns on CDOs amounting to 134 million euros. At 14.4 million euros, the net amount set aside for provisioning for commitment credit was lower than the previous year.

At -471.9 million euros, net provisioning (i.e. the difference between transfers from provisions and provisions set aside (headings XI and XII)) was accounted for primarily by a 380-million-euro provision set aside for future capital increases at subsidiaries. These capital increases will be written down immediately. Of the remaining amount set aside, provisioning for legal disputes was the chief item. Moreover, there were significant reversals (+52 million euros) in 2008 on provisioning for miscellaneous expenses and future expenditure. There was a small net allocation (-3.2 million euros) for staff-related provisions compared with -18.3 million euros for the previous year.

EXTRAORDINARY INCOME AND CHARGES

Extraordinary income amounted to a negative 1 355.5 million euros for 2008, compared with a positive 56.2 million euros for the previous year. The exceptional crisis on the financial markets resulted in significant impairment losses on financial fixed assets (1 351.5 million euros).

INCOME TAXES

Income taxes (headings XX and XXII) went down by 215 million euros to 18 million euros, mainly because of the lower taxable profit at KBC Bank Belgium. For an overview of taxation, please see Table XXVI in the Notes.

ASSETS/LIABILITIES

BALANCE SHEET TOTAL

At year-end 2008, total assets came to 210 billion euros, a decrease of 9.6 billion euros or 4.35% compared with the year-earlier figure. On the assets side of the balance sheet, nearly all items were down, with the exception of bonds and other fixed-income securities and deferred charges and accrued income. On the liabilities side, amounts owed to credit institutions and debts represented by securities were the main headings that decreased.

At the end of 2008, amounts receivable from abroad accounted for 57.48% of the balance sheet total (59.97% at the end of 2007). The branches abroad held around 16.17% of the bank's total assets, down 3.26% on year-end 2007.

TRANSACTIONS WITH CREDIT INSTITUTIONS

Loans and advances to banks (asset heading III) fell by 12.7 billion euros. Approximately 24.97% of this heading is accounted for by reverse repos, which were entirely responsible for this decline. Amounts owed to credit institutions (liabilities heading I) also went down by 16.5 billion euros.
Accordingly, net borrowing from credit institutions came to 9.7 billion euros at the end of the financial year, compared with 13.5 billion euros in 2007. The volume outstanding depends on the liquidity requirements of the bank.

LOANS AND ADVANCES TO CUSTOMERS

Asset heading IV, 'Loans and advances to customers', includes not only payment credit granted by the bank, but also securities for collection and balances on suspense accounts. Of the amount outstanding, 75.5% is denominated in euros, while 57.76 % represents exposure to Belgian counterparties. Loans and advances to customers went down by 5.6 billion euros to 94 billion euros.

Term loans decreased by 3.8 billion euros. This heading also includes highly volatile reverse repo transactions with customers, primarily clearing institutions. These transactions were down by 9.2 billion euros on year-end 2007. Ultimately, payment credit granted to customers rose by 5.4 billion euros.

In November 2008, an additional securitisation operation involving home loans was carried out for an amount of 2.8 billion euros. The total amount for securitisation operations came to 6.6 billion euros at the end of 2008.

FIXED-INCOME SECURITIES

The total portfolio of fixed-income securities (asset headings II and V) rose by 6.2 billion euros to 39.6 billion euros. Securities issued by public authorities represented 71.79% of the portfolio and those issued by credit institutions 8.5%.

The investment portfolio increased by 5.2 billion euros to 27.5 billion euros. This portfolio consists mainly of Belgian and EMU government issues. At year-end 2008, there was an unrealised gain on the investment portfolio of fixed-income securities of 131 million euros.

The trading book, made up mainly of government securities and securities issued by credit institutions, grew in 2008 by 0.9 billion euros to 12.1 billion euros.

SHARES AND OTHER VARIABLE-YIELD SECURITIES

Asset heading VI, 'Shares and other variable-yield securities' came to 619.5 million euros, compared with 449.8 million euros at the close of 2007. The trading portfolio went up by 280.3 million euros.

FINANCIAL FIXED ASSETS

Participating interests, other shares and subordinated loans constituting financial fixed assets (heading VII) went down by 409 million euros to 15.8 billion euros.Capital increases were carried out at subsidiaries, with the main operations being the increase of 238 million euros in the stake in ČSOB, of 254 million euros in the stake in Absolut Bank and of 350 million euros in the stake in Istrobanka. Conversely, 1 351 million euros in write-downs were recorded primarily in relation to KBC Financial Products companies, Peel Hunt and shares held in KBC Group NV.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

Asset heading VIII 'Formation expenses and intangible fixed assets' is made up solely of intangible fixed assets.

TANGIBLE FIXED ASSETS

Asset heading IX went down by 45.7 million euros to 724 million euros, on account of real estate activities.

OTHER ASSETS

Other assets went up by 75 million euros to 1.9 billion euros. This heading consists of the revaluation of trading foreign currency options and interest rate options.

ACCRUALS AND DEFERRALS

Deferred charges and accrued income are recorded under asset heading XII.
They rose by 2 billion euros to 17.4 billion euros due to the market valuation of mainly interest-rate-related derivatives.

AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES

Customer deposits, including those represented by securities, are included in liabilities headings II and III. These

are liabilities ensuing on the attraction of working funds from customers (including discounting, repurchase agreements and secured advances), as well as credit balances on suspense accounts and the short position in the trading portfolio.

Total customer deposits rose slightly, by 386 million euros to 119 billion euros at year-end 2008. Amounts owed to customers increased by 3.8 billion euros. Most products went up with the exception of savings certificates, which remained unchanged. Debts represented by securities fell by 3.4 billion euros, the net impact of an increase of 1.5 billion euros in Belgian and a decrease of 4.9 billion euros in the foreign branches.

OTHER LIABILITIES

Other liabilities (heading IV) include liabilities relating to options premiums paid, taxation, remuneration and social security charges, as well as invoices yet to be paid by the bank. There was a decrease of 0.8 billion euros compared with financial year 2007. In 2007, dividends to be paid on treasury shares were also recorded under this heading. For an overview, please see Table XIV in the Notes.

ACCRUALS AND DEFERRALS

Accrued charges and deferred income are recorded under liabilities heading V. They went up by 3 billion euros compared with the previous year.

PROVISIONS FOR LIABILITIES AND CHARGES

In 2008, provisions for liabilities and charges (liabilities heading VI.A) rose by 431.6 million euros to 667.7 million euros, an increase accounted for primarily by:
- a provision of 380 million euros for the future capital increase in relation to KBC Financial Products companies;
- the increase of 25 million euros in the provision for the Bell Group (KBC London).

For more detailed information, see Note XVI of the 'Company accounts' section.

SUBORDINATED LIABILITIES

A breakdown by type and residual term to maturity of liabilities heading VIII is shown in Table XVII in the Notes. Total subordinated liabilities outstanding went up by 2.1 billion euros to 9.7 billion euros. This figure can be broken down as follows:
- non-convertible bonds: 6.6 billion euros;
- other subordinated term borrowings: 3.1 billion euros

The increase in subordinated debt is largely attributable to the issue of two perpetuals that have been recognised as a component of core equity at KBC Bank and KBC Group level (consolidated).

One loan (700 million euros, at 8%) was intended for retail customers in Belgium and the other (1 250 million euros, also at 8%) for institutional and retail investors abroad. Compared with 2007, there was an exchange difference of -162 million euros in relation to the hybrid bond loan of 525 million pounds sterling.

The MCB loan in the amount of 186 million euros matured in 2008 and was converted into shares.

Disregarding the developments in relation to these special subordinated loans, sales in the branch network of primarily subordinated certificates and time deposit accounts increased by around 500 million euros in 2008.

CAPITAL AND RESERVES

Capital and reserves went up in 2008 by 1 764 million euros to 10 767 million euros due to:
the 2 250-million-euro capital increase carried out by KBC Group NV. KBC Group NV financed this capital increase itself by issuing 3.5 billion euros' worth of non-dilutive core-capital securities to the Belgian State. This amount was used to strengthen capital at KBC Bank NV (2 250 million euros) and KBC Insurance NV (1 250 million euros).

the 186-million-euro conversion of a subordinated convertible loan.
the 672-million-euro reduction in the reserves.

OFF-BALANCE-SHEET HEADINGS

CONTINGENT LIABILITIES

Off-balance-sheet items carrying an actual credit risk increased by 14.3 billion euros to 55.1 billion euros.
This increase is accounted for by 'other guarantees' (16.2 billion euros) and relates primarily to guarantees the bank has extended to holders of financial instruments issued by subsidiaries (e.g., to finance companies for the issue of international bond loans). These are included under heading I.C. Guarantees given that are in the nature of direct credit substitutes (heading I.B) went down by 1.9 billion euros year-on-year.

COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

The undrawn margin on confirmed credit lines (heading II.C.) rose by 683 million euros to 39 billion euros, owing to decreased utilisation of the credit lines.

ANNEX 4

Litigation affecting KBC Bank and the KBC Group

Litigation

This report concerns material litigation to which **KBC Bank** or any of its companies (or certain individuals in their capacity as current or former employees or officers of KBC Bank or any of its companies) are party. It describes all claims, quantified or not, that could lead to the impairment of the company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for the corporation, members of the board or management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, management does not believe that the liabilities arising from these claims will adversely affect KBC Bank's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes..

Judicial inquiries and criminal proceedings

An inquiry was instituted in mid-1996 by the Belgian judicial authorities relating to the alleged cooperation by (former) directors, managers or members of staff of **KBC Bank** NV and Kredietbank Luxembourgeoise SA ("KBL") in tax evasion committed by customers of KBC Bank and KBL. The investigation was based on confidential information believed to have been stolen by former KBL employees who had been dismissed in 1994 for embezzlement. This inquiry ended in October 2000 and resulted in eight (former) directors, managers and members of staff of KBC and twenty-seven (former) directors, managers and members of staff of KBL being placed under suspicion.

On January 11, 2008, the Chambers section of the Brussels Court of First Instance (the *Raadkamer*) decided to refer finally just 11 people previously placed under suspicion in this case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the charges were insufficient or the period of prescription has expired. On September 24, 2008 the court of Appeal confirmed the judgment rendered on January 11, 2008 with regard to the (former) directors, managers or members of staff of KBC Bank and KBL. On April 3, 2009 the case will be brought before the Brussels Court of First Instance (the *correctionele rechtbank*) which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.

From late 1995 until early 1997, KBC Bank and KB Consult NV (**KB Consult**) were involved in the sale of "cash companies" to various purchasers. A "cash company" is characterised by the fact that substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KBC Bank differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KBC Bank and KB Consult discovered that certain purchasers of these cash companies failed to reinvest such companies' cash in qualifying assets and file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KBC Bank and KB Consult immediately took the necessary measures to prevent any further involvement with these parties. The activities of KB Consult were subsequently wound up. KBC Bank and KB Consult were summoned to court in 28 cases. In addition, KB Consult was placed under

suspicion by an investigating magistrate in December 2004. A provision of EUR 50.3 million has been constituted to cover the potential impact of any liability with respect to these actions.

Recently not only KB Consult but surprisingly also KBC Bank and KBC Group were notified that the lawsuit is scheduled before the Chambers section of the Court of First Instance (the *Raadkamer*) in Bruges on May 27, 2009. Now we will be able for the first time to consult the judicial file. Ninety other parties, mostly sellers of "cash companies" placed under suspicion are also notified to attend this court's hearing.

In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, came to light at K&H Equities in Hungary. Orders and portfolio statements of the clients were forged. Many clients suffered substantial losses in their portfolio as a result of unauthorised speculation and the misappropriation of funds. On 28 August, 2008 a Budapest court sentenced Atilla Kulcsár to eight years imprisonment and a fine of 230 million forints. The court acquitted Tibor E. Rejto, former president of K&H Bank, who had also been charged with embezzlement as an accomplice. Other people involved were sentenced to severe punishments. An appeal is lodged either by the sentenced parties either by the Prosecutor with exception of two persons. Numerous civil claims are pending. Some of the civil claims have been settled either by agreement or by arbitration awards. Provisions have been set aside at K&H Equities. In spite of the forgery most of the arbitration awards consider the portfolio statements to show the clients' true balances. In more recent awards, the Arbitration Court and the Metropolitan Court have also accepted some evidence on the account histories of the claimants, which resulted in lower amounts being awarded than originally claimed by the clients.

In June 2007, KBC Group was placed under suspicion by an investigating magistrate in Brussels in an alleged case of fraud and tax evasion by a customer, who is active in the real estate sector. This matter concerns the financing by **KBC Bank** of an equity transaction of a real estate company.

KBC was granted access to the relevant judicial dossier and may ask for additional investigations to be carried out. KBC is convinced that both it and its employees followed the Bank's internal procedures to combat money laundering and fraud and complied with legal and regulatory requirements in this case.

On 24 July, 2008, KBC Bank and an employee of a branch in Brussels were summoned together with Giamal Aldeib, a Lybian businessman, to appear before the Brussels Court of First Instance (the *correctionele rechtbank*) on 12 September, 2008. KBC Bank and its employee are charged for use of forged documents and money laundering. The Prosecutor is demanding the confiscation of approximately EUR 2.3 million and USD 1 million. The criminal file reveals that the main suspect has swindled several Belgian casinos out of huge credit amounts for gambling by issuing many cheques drawn on international banks. It is not very clear why KBC Bank and its employee are being pursued, unless for money transfers from other banks and cash transactions. In any event, neither KBC Bank nor its employees were aware of any illegal origin until the procedures to combat money laundering and fraud revealed suspicious transactions that led to a disclosure to the competent authorities. No international inquiries were ordered by the prosecutor as to check the origin of money transfers or the unpaid cheques. The case is on request of the Prosecutor once again postponed for oral pleadings on 16 and 17 September 2009. The attorneys have already prepared the defence.

Other litigation

On June 19, 2000, **ČSOB** concluded an "Agreement on Sale of Enterprise" with another Czech bank, IPB, which had been placed under forced administration on June 16, 2000.

This agreement was approved by the Czech National Bank ("CNB"). In connection with the acquisition by ČSOB of the Enterprise of IPB ("IPB Enterprise"), the Czech Ministry of Finance (acting on behalf of the Czech Republic) entered into an agreement with and provided a state guarantee to ČSOB, and the CNB also entered into an indemnity agreement with ČSOB. The purpose of these two agreements is, *inter alia*, to ensure a zero net asset value and to protect ČSOB against (i) losses existing as of the date of the sale of the IPB Enterprise as revealed by extraordinary audits of the IPB Enterprise carried out after the closing of the acquisition of the IPB Enterprise by ČSOB and (ii) damages incurred by ČSOB as a result of the acquisition of the IPB Enterprise ("state guarantees").

ČSOB is party (claimant/plaintiff or defendant) to a number of civil and criminal actions that were triggered by the acquisition of the IPB Enterprise. These actions relate to alleged off-balance sheet assets and legal actions of former IPB management, various attempts to contest the take-over of IPB Enterprise by ČSOB, the rescue and restructuring of IPB Enterprise and the state aid provided in connection with the rescue and restructuring of the IPB Enterprise.

As a result of the foregoing, Nomura Principal Investment Plc ("Nomura") has filed a complaint against ČSOB and KBC Bank for unfair competition. Nomura alleges that (i) ČSOB and KBC Bank (with a view to securing the market position of ČSOB and redirecting state aid from IPB) acted in bad faith and attempted to influence the Czech government and the CNB to ensure that IPB did not receive state aid or any other type of rescue package and (ii) the IPB enterprise was not sold to an investor in a transparent tender procedure. Nomura demands, *inter alia*, that the defendants be jointly obliged to pay Nomura 31.5 billion CZK and to reimburse Nomura for the alleged material detriment suffered by it as a result of the conduct of the ČSOB and KBC Bank . The case is pending before a Czech court. In March 2006, an arbitration award was issued in the arbitral proceedings between Nomura group and the Czech Republic, which, *inter alia*, acknowledged that the state had legally put IPB under forced administration and sold the IPB enterprise to ČSOB.

Nomura withdrew the proceeding by which it challenged the clearance given by the European Commission in 2004 of the validity of the state aid provided by the Czech government to IPB (and consequently to ČSOB) before the European Court of First Instance.

In February 2007, the Czech National Bank (CNB) requested that ČSOB set aside provisions against the 'realistic possibility' that ČSOB might lose several disputes in IPB-related claims. ČSOB responded that these issues are fully covered by the state guarantees and that creating provisions would be redundant and in contradiction of international accounting standards.

On June 13, 2007 CSOB filed a Request for Arbitration against the Czech Republic for CZK 1,7 billion (approximately EUR 62,3 million) plus interest as a result of the failure of the Czech Republic to reimburse CSOB in connection with the J. Ring-case. Article 2.5 of the Agreement and State Guarantee provides that, in the event ČSOB has to pay back to the CKA (a state owned financial institution facilitating the restructuring of the Czech economy by purchasing bad loans) the consideration for any item of the IPB enterprise returned by the CKA to ČSOB, the Czech Republic has to reimburse ČSOB for the full amount in order to ensure a zero net asset value. As the Czech Republic fails to pay the amount of the consideration in the J. Ring-case to ČSOB, although the J.-Ring items in question have been transferred by CKA to IPB on the basis of an arbitral award, ČSOB has had to start the aforementioned arbitration proceedings.

In its answer in which it presented its defence in this arbitration proceeding, the Czech Republic asserted in July 2007 a counter-claim of CZK 26.7 BLN (approximately EUR 1

billion). Having reviewed this claim and the underlying arguments together with its external counsel, ČSOB believes that this claim is without merit and expects the Arbitral Tribunal not to award any amounts to the Czech Republic on the basis of this counterclaim.

By notice dated March 21, 2008 the CNB instructed CSOB to effectively remove the J Ring receivable (CZK 1,65 bln) from its books. CSOB decided to execute this CNB decision and to derecognise the J Ring receivable in the CSOB statutory accounts as at April 9th 2008.

CSOB strongly disagrees with this decision of the CNB and has filed an appeal against this decision on April 10, 2008.

The first instance decision was cancelled for formal reasons on June 26, 2008 and is no longer enforceable at this moment. However, a new and quite similar decision of the CNB is expected.

As the J.Ring case not only falls under the State Guarantee Agreement with the CZ Ministry of Finance but also under the CNB Guarantee Agreement, ČSOB decided to register the claim on the CZ Ministry of Finance and/or the CNB.

However, by notice dated November 18, 2008, the CNB instructed CSOB again to remove the said J RING receivable from its books.

CSOB has launched an appeal against this decision again. However, as this decision of the CNB is enforceable pending appeal, CSOB decided to execute this CNB decision and to derecognise the J Ring receivable against the Czech Ministry of Finance in the CSOB statutory accounts. In the reporting under IFRS to KBC, the derecognising will be reversed.

In March 2000, Rebeo (currently **Almafin Real Estate Services**) and **Trustimmo**, two former subsidiaries of Almafin (currently a Belgian subsidiary of KBC Group), and four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned, together with, before civil court in Brussels by the Belgian State, Finance Department, for the non-payment of approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, Broeckdal Vastgoedmaatschappij had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However, Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002, commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department. The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp.

A provision of EUR 24.8 million has been reserved to cover the potential impact of liability with respect to these actions. In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was adjudged bankrupt by the court of 's-Hertogenbosch in the Netherlands. In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned Deloitte & Touche as the auditor of Broeckdal Vastgoedmaatschappij before the civil court in Brussels in order to indemnify the former against all judgments. In November 2008 Mubavi België (currently BeZetVe) was also adjudged bankrupt by the commercial court in Antwerp.

On a proposal by the Polish Organization of Commerce and Distribution ("POHiD") in Warsaw, the Office for Competition and Consumer Protection ("UOKiK") instituted legal proceedings against the Polish Banks Association ,VISA and MasterCard and twenty Polish banks, including **Kredyt Bank** S.A., issuing payment cards in Poland. On December 29, 2006, the President of the UOKiK rendered a decision by which Kredyt Bank and other banks were accused of practices restricting competition and breaching the ban set forth in art. 81 (1) of the Treaty establishing the European Community and in art. 5 (1) point 1, of the Competition and Consumer Protection Act, by participating in an agreement to fix the amount of interchange fees collected for transactions made using VISA and MasterCard cards in Poland.

The banks have not been accused of practices restricting competition that consist in the coordination of actions to restrict entrepreneurs, which are not parties to such agreements, from accessing the market of services for the settlement of payments by consumers to commercial entities for purchases made using payment cards. Kredyt Bank S.A. was fined approximately PLZ 12,2 million. HSBC Bank Poland S.A. ("HSBC"), based on the actions of its subsidiary Prosper Bank SA, was fined PLZ 192, 900, and the proceedings against it were dropped and will not be continued. Because Kredyt Bank sold the shares of Prosper Bank SA to HSBC and agreed to pay all fines imposed on HSBC for the obligations of Prosper Bank existing as of the date of the sale, Kredyt Bank will pay the fine imposed on HSBC.

With regard to the decision of the President of the UOKiK that these banks refrain from anticompetitive practices, an enforcement clause has been added to prevent the banks, from the time they receive the decision, from engaging in anticompetitive practices and requiring them to cease applying agreed interchange fees.

On January 12, 2007, a complaint was filed against the decision of the President of UOKiK to add the sanction clause of immediate enforceability. On January 17, 2007, and January 19,2007, complaints were filed on behalf of HSBC Bank Polska and Kredyt Bank against the decision of the President of UOKiK, to consider participation in the agreement on fixing the amount of interchange fees by VISA, MasterCard and the banks as anticompetitive practice.

On January 18, 2007, the President of UOKIK rendered a decision by which the banks are jointly obliged to pay POHID PLZ 157,643 as reimbursement for the cost of the proceedings. Kredyt Bank filed a complaint against the decision, considering it to be groundless.

On August 25, 2007 the Commercial Court suspended the performance of the UOKIK's decision re. interchange fees. On December 20, 2007 UOKiK transferred the case to the commercial court of Warsaw.

On November 12, 2008 the court rendered a favourable judgment whereby the vision of many European banks, including KBC, is confirmed that an interchange fee is a service fee and not a "taxation" to improve the P&L of the issuer. The Polish competition authority has to decide within a fortnight of the notification of the judgment whether to appeal to a higher court or not.

In March 2008 KBC Group**, KBC Bank,** KBL and Kredietrust have been summoned to appear before the commercial court in Brussels by the British company Beverly Securities Limited. This company makes reference to business relations that KBC / KBL are said to have had with the Republic of South Africa almost 20 years ago, at the time of apartheid and the trade embargo recommended by the UN.

The company is seeking payment of a substantial commission linked to a business transaction totally foreign to KBC and KBL. In the past it has already tried to obtain

payment of this commission from third parties through legal proceedings launched in South Africa and France, where on each occasion the case was dismissed. A similar proceeding in Portugal is still ongoing. It is now attempting to obtain payment on the pretext of having opened an account with KBL more than 17 years ago.

Even if it is true that during this period the KBC / KBL group maintained business relations with South Africa, this in no way supports the allegations made in the summons. After a thorough examination carried out on the basis of the documents and archives still available, and having obtained two legal opinions from well-known legal practices, particularly in relation to the embargo, KBC and KBL are reassured of their position and of the fact that they respected all the laws applicable to them at the time.

KBC and KBL consider the complaint to be totally unjustified and they intend to claim substantial damages from the plaintiff for a frivolous and vexatious action.

The case has been introduced in April 2008 and according to the proceedings' schedules the pleadings will be held in December 2009.

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