KBL GROUP EUROPEAN PRIVATE BANKERS

110 locations, 11 European countries

GERMANY
Merck Finck & Co, Privatbankiers
Head office Munich

BELGIUM
Puilaetco Private Bankers
Head office Brussels

SPAIN
Banco Urquijo
Head office Madrid

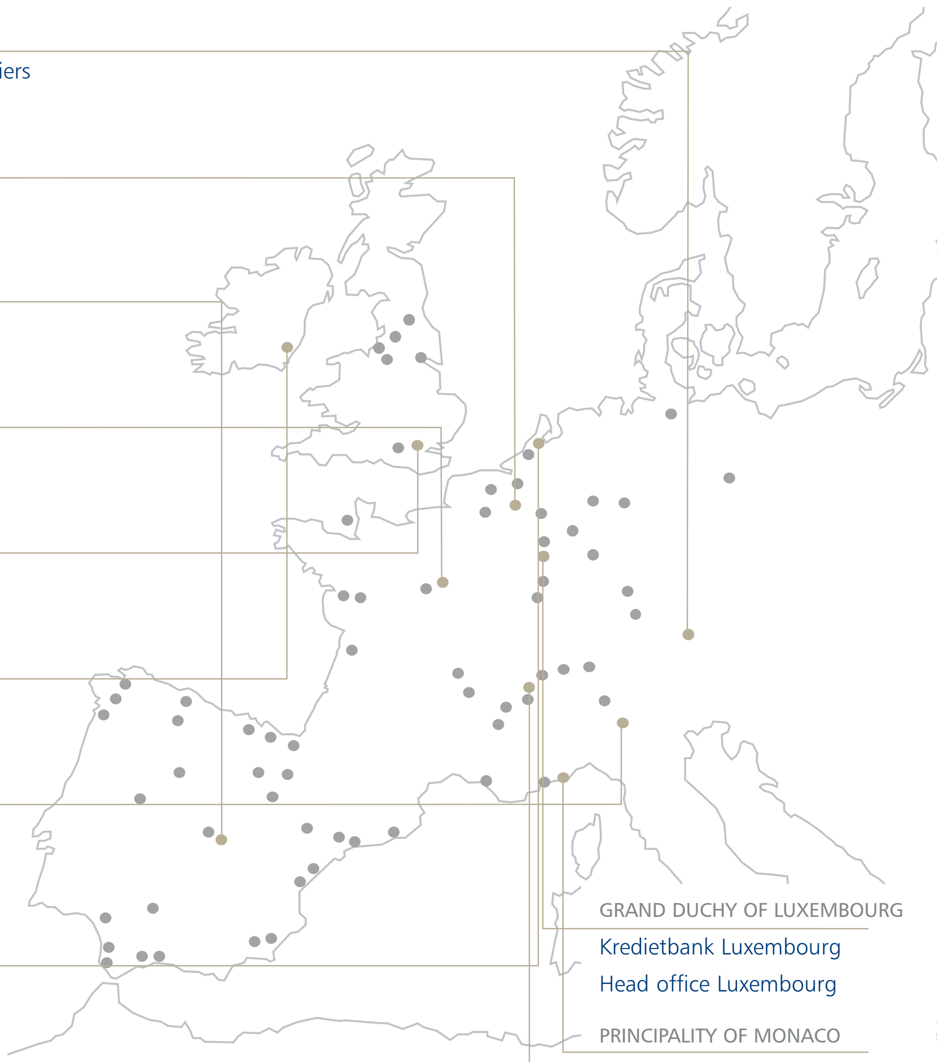
FRANCE
KBL France
Head office Paris

GREAT BRITAIN
Brown, Shipley & Co.
Head office London

IRELAND
KBL Bank Ireland
Head office Dublin

ITALY
Banca KBL Fumagalli Soldan
Head office Milan

THE NETHERLANDS
Theodoor Gilissen Bankiers
Head office Amsterdam



GRAND DUCHY OF LUXEMBOURG
Kredietbank Luxembourg
Head office Luxembourg

PRINCIPALITY OF MONACO
KB Luxembourg (Monaco)
Head office Monaco

SWITZERLAND
Kredietbank (Suisse)
Head office Geneva

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KEY EVENTS IN 2004

Reinforcement and consolidation of KBL Group European Private Bankers, present in 11 European countries, including the region's six biggest markets: Germany, United Kingdom, Italy, France, Spain, Ireland, the Netherlands, Belgium, Luxembourg, Switzerland and Monaco.

- Acquisition in July 2004 of Puilaetco Bankers S.A., a bank specialised in wealth management and having a solid reputation in Belgium.
- Absorption on 31 December 2004 of Banque Continentale du Luxembourg by Kredietbank S.A. Luxembourgeoise.

Announcement, on 23 December 2004, of the take-over bid for ordinary and preference shares made to KBL minority shareholders by Almanij. This bid was part of a much wider restructuring and simplification of our core shareholder group.

Decision of the Board of Directors, on 16 March 2005, to request the suspension of the listing of KBL ordinary and preference shares on the Luxembourg Stock Exchange with effect from 30 June 2005 in view of the result of Almanij's take-over bid.

Risk management in line with the requirements of the supervisory authorities:

- Group Risk Management carried out ongoing controls.
- The rôle and resources of the Group Compliance Officer's have been extended.
- The group-wide drive to voluntarily slim down loan portfolios continues and the average loss ratio on the loan portfolio for the past five years is now just 0.17%.

The group further stepped up its cost control, trimming overheads by 2.5% on a year-on-year basis. With Theodoor Gilissen being consolidated in December 2003 and Puilaetco in July 2004, overheads rose by 6.9%

As at 31 December 2004 the KBL Group had a total pan-European payroll of 3 879 employees, 67% of which were working in subsidiaries, compared to 3 910 as at 31 December 2003, a decrease of 1%.

- This development simultaneously takes account of the acquisition of the Belgian bank Puilaetco and the impact of the staff cost-cutting programmes undertaken by various companies in the group.

As at 31 December 2004 the consolidated capital adequacy ratio, after allocation of profits, was 14.1% and the consolidated capital adequacy ratio of basic equity (Tier One) was 9.2%.

The group's share of consolidated net profit rose by 6.5% to EUR 205.7 million.

A gross dividend of EUR 6.15 per share, 5.5% higher than last year, is to be paid.

LETTER FROM THE PRESIDENT

The year 2004 will remain a pivotal one for KBL Group European Private Bankers.

Our group grew, once again, through the acquisition, in July, of Puilaetco Bankers S.A., an institution well known for private banking in Belgium. We now have a presence in 11 European countries, including the region's six biggest markets.

More than ever, we are confirmed in our strategy which has been directed for some years now at building a European group of private bankers, each having a well-known and successful local name on their domestic market.

To reach critical mass in line with our expectations in all the countries in which we are present, we want to continue to attract new partners and encourage our executives in their efforts to increase markedly the assets under management for an ever more demanding clientèle.

On this subject we noted that in 2004 although the markets sometimes showed themselves hesitant, they were generally up and reassured a private clientèle which has gradually moved back to investing in stocks.

2004 also closed with an announcement of major changes.

The structure of our core shareholders was simplified by Almanij's prior take-over of our entire capital. This operation was successfully concluded on 14 February 2005. The merger between Almanij and KBC was finalised on 2 March 2005 to give birth to a new KBC Group, to which we belong almost 100%.

From now on we are a part of this stable, solid and ambitious group. This is an advantage and a guarantee for our KBL Group European Private Bankers which has been confirmed by the new group in its mission as the driving force behind private banking in Europe.

In effect while KBC's new unified management structure will guide and co-ordinate general policy, all the private banking activities of the KBC Group will be placed under common management and entrusted to KBL Group European Private Bankers.

This strategy will allow a more flexible and rational allocation of available resources within the group and create beneficial synergies in a number of operational areas.

I am convinced that, strengthened by this support, we shall be able to improve our profitability thanks to the enlargement of our client base to the whole of the KBC Group, to the complementary qualities of the products and the fame of our brands across Europe.

Today the future of KBL is assured and the development of Private Banking within the KBC Group will be our challenge in the coming years. I am confident in our capacity to meet it.

Etienne Verwilghen
President of the Executive Committee

Situation as at 31 December 2004

BOARD OF DIRECTORS

Jan HUYGHEBAERT
Chairman

Etienne VERWILGHEN
President
Kredietbank S.A. Luxembourgeoise

Jean-Marie BARTHEL
(until 24 April 2005)
Executive Director
Kredietbank S.A. Luxembourgeoise

Paul BORGHGRAEF
(until 24 April 2005)
Member of the Almanij Executive Committee

Antoine D'HONDT
Executive Director
Kredietbank S.A. Luxembourgeoise

Jan Maarten de JONG
Adviser to the President of the Managing Board of ABN-AMRO BANK N.V.

Diego du MONCEAU
Company Director
(from 16 June 2004)

Rik DONCKELS
President of the Management Committee
Cera Holding

Marc FRANCKEN
Managing Director
Gevaert S.A.

Catherine GUYON-SABBE
(until 28 April 2004)
Managing Director
CGS N.V.

Jean-Paul LOOS
Executive Director
Kredietbank S.A. Luxembourgeoise

Edmond MULLER
Industrialist

Luc PHILIPS
Managing Director of Almanij

Marie-Christine VANTHOURNOUT-SANTENS
Director of Companies

Philippe VLERICK
Managing Director
B.I.C. Carpets

Frank ERTEL
Staff representative
Kredietbank S.A. Luxembourgeoise

Marc GLESENER
President of ALEBA
Staff representative
Kredietbank S.A. Luxembourgeoise

Francis GODFROID
Staff representative
Kredietbank S.A. Luxembourgeoise

Christian HOELTGEN
Staff representative
Kredietbank S.A. Luxembourgeoise

Franz JAKOBS
Staff representative
Kredietbank S.A. Luxembourgeoise

Christine JANSSENS
Staff representative
Kredietbank S.A. Luxembourgeoise

Nico KNEPPER
Staff representative
Kredietbank S.A. Luxembourgeoise

Jean-Marie MOSSONG
Staff representative
Kredietbank S.A. Luxembourgeoise

Marie-Paule NILLES
Staff representative
Kredietbank S.A. Luxembourgeoise

INDEPENDENT AUDITORS

Deloitte, Luxembourg

Situation as at 31 December 2004

EXECUTIVE COMMITTEE

Etienne VERWILGHEN
President

Jean-Marie BARTHEL
(until 30.06.2004)

Antoine D'HONDT

Jean-Paul LOOS

Philippe PAQUAY
(since 1 June 2004)

MANAGEMENT

Adelin BLAISE
Internal Audit

Luc CAYTAN
Trading

Rafik FISCHER
Operations Management

Marie-Paule GILLEN
General Secretariat

Michel GODFRAIND
Private Banking

Jean-Luc MARTINO
IT Department

Dominique MELOTTE
Human Resources and Equipment

Yves PITSAER
Subsidiaries

Bernard SOETENS
Corporate / Credit and Analyses

Philippe VERDIER
Organisation

André Marie CRELOT
Accounts

Philippe AUQUIER
Management Audit

Marie-France DE POVER
Compliance Officer

Thierry LOPEZ
Group Risk Management

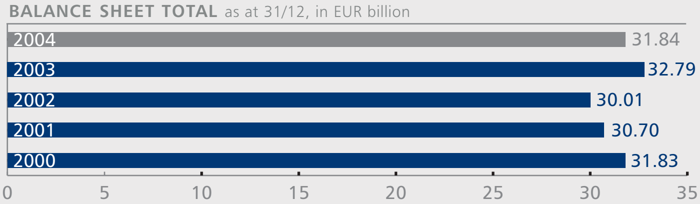
KEY CONSOLIDATED FIGURES

Before allocation

CONSOLIDATED BALANCE SHEET

as at 31 December, in EUR billion	2000	2001	2002	2003	2004
Balance sheet total	**31.83**	**30.70**	**30.01**	**32.79**	**31.84**
ASSETS					
Loans and advances to credit institutions	13.67	13.23	10.41	12.05	12.72
Loans and advances to the public sector and similar	8.26	7.71	10.22	10.79	10.61
Loans and advances to customers	8.22	8.12	7.67	7.78	6.83
LIABILITIES					
Amounts owed to customers and debts evidenced by certificates	16.61	16.97	18.07	17.31	16.42
Amounts owed to credit institutions	11.70	10.55	8.90	12.70	13.14
Shareholders' equity (Tier 1)	1.06	0.87	0.88	0.99	0.76
Shareholders' equity & similar items	1.54	1.37	1.36	1.53	1.17

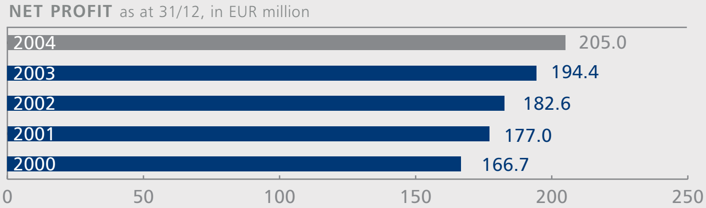
BALANCE SHEET TOTAL as at 31/12, in EUR billion



CONSOLIDATED INCOME STATEMENT

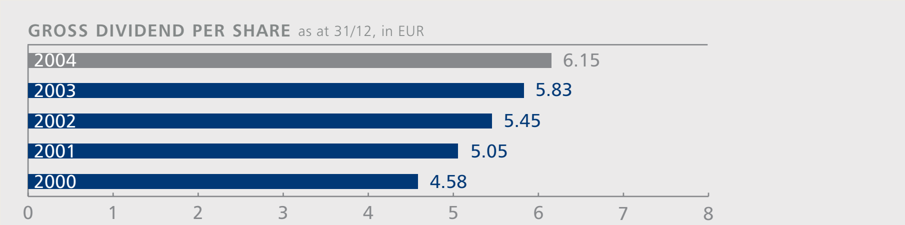
as at 31 December, in EUR million	2000	2001	2002	2003	2004
Net banking income	952.3	814.0	913.6	822.2	755.8
Gross operating income	454.7	286.5	383.5	330.1	229.6
Income taxes and other duties	70.4	63.7	30.7	62.2	50.4
Net profit	166.7	177.0	182.6	194.4	205.0
Dividend	93.1	102.7	110.8	118.5	125.0

NET PROFIT as at 31/12, in EUR million



DATA PER SHARE

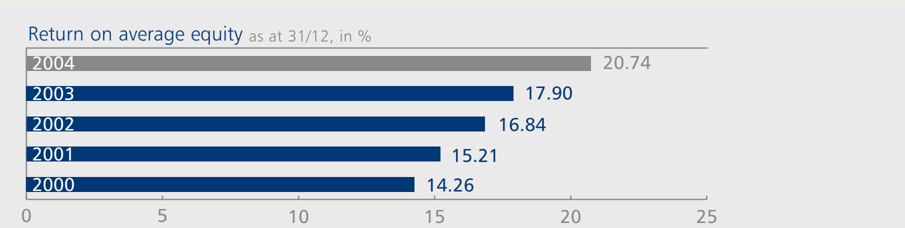
as at 31 December, in EUR	2000	2001	2002	2003	2004
Consolidated net profit (group share)	7.93	8.57	8.90	9.50	10.12
Gross dividend	4.58	5.05	5.45	5.83	6.15



FINANCIAL RATIOS

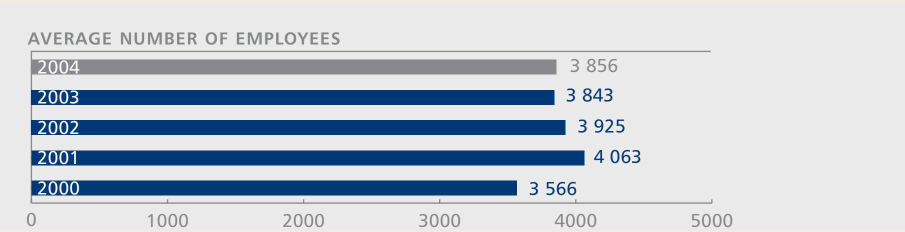
in %	2000	2001	2002	2003	2004
Risk-weighted solvency ratio (before allocation)	11.58	11.12	12.18	14.41	12.95
Risk-weighted solvency ratio (after allocation)	11.96	11.79	12.97	15.38	14.13
Shareholders' equity and similar items / Balance sheet total	4.83	4.45	4.53	4.68	3.67
Bank assets + Treasury bills / Bank liabilities	143.67	152.20	178.45	146.70	138.21
Return on average equity (ROAE) (1)	14.26	15.21	16.84	17.90	20.74
Return on average assets (ROAA)	0.54	0.57	0.60	0.62	0.63
Overheads / Net banking income	52.25	64.80	58.02	59.85	69.62

(1) on the basis of equity before allocation, group share and third parties, including the fund for general banking risks



PERSONNEL

	2000	2001	2002	2003	2004
Average number of employees	3 566	4 063	3 925	3 843	3 856
Net profit per employee	46 740	43 561	46 524	50 598	53 166



SHAREHOLDERS' MEMO

SHAREHOLDER BASE AS AT 31 DECEMBER 2004

	Percentage of ownership	Percentage of control
Almanij Group	**78.64%**	**84.57%**
Of which: - Almanij directly	66.64%	71.21%
- other companies	12.07%	13.36%
Miscellaneous and public	21.36%	15.43%

RESULTS OF THE TAKE-OVER BID ON 28 FEBRUARY 2005

From 31 January to 14 February 2005, Almanij made a take-over bid in Luxembourg for all the KBL shares not yet held by the Group. A total of 2 227 161 ordinary shares and 1 319 373 preference shares without voting rights were acquired. Consequently, on 21 February 2005, the Group held 96.9% of the ordinary shares and 93.7% preference shares without voting rights (96.6% of all shares).

SHAREHOLDER BASE AS AT 11 MARCH 2005

	Percentage of ownership	Percentage of control
Almanij Group	**96.7%**	**96.9%**
Miscellaneous and public	3.3%	3.1%

In line with the intentions expressed in the take-over bid, a request has been made for the delisting of shares on the Luxembourg stock exchange with effect from 30 June 2005. In the meantime the Group may continue to acquire gradually offers for sale of shares on the stock exchange or by mutual agreement under the same conditions as those of the take-over bid, it being understood that after the payment of the 2004 dividend the purchase price will be reduced by the amount of the gross dividend.

FINANCIAL DATA (END OF THE FINANCIAL YEAR)

	2000	2001	2002	2003	2004
Number of ordinary shares	18 353 387	18 353 387	18 353 387	18 353 387	18 353 387
Number of preference shares	1 975 320	1 975 320	1 975 320	1 975 320	1 975 320
Paid-up equity capital (in EUR million)	188.988	188.988	188.988	188.988	188.988
Net profit per share (in EUR)	7.10	7.83	8.43	8.85	9.26
Payout ratio (non-consolidated) (dividends & directors' fees/profit to be allocated)	65.23%	65.30%	65.49%	66.52%	67.04%
Gross dividend (in EUR)	4.58	5.05	5.45	5.83	6.15
Net dividend (in EUR)	3.44	4.04	4.36	4.66	4.92
Net yield (ordinary shares) P/E (based on share price as at 31.12 of the financial year)	2.95%	3.74%	4.29%	4.04%	3.29%
Highest price/ lowest price (ordinary shares) (in EUR)	125.50 109.00	116.00 72.50	124.50 87.75	125.50 93.00	159.50 111.50
P/E (based on share price as at 31.12 of the financial year) (ordinary shares)	16.40	13.80	12.06	13.04	16.15
Ordinary share price as at 31.12 (in EUR)	116.50	108.00	101.63	115.50	149.50

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the bank's articles of association, and are therefore guaranteed a minimum annual return. If no profits are reported in the year, this dividend entitlement is carried forward to future years. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend.

The bank's articles of association specify that, if the company is wound up, holders of preference shares are guaranteed repayment of the capital initially invested, that is EUR 14.56. Holders of preference shares are not however entitled to receive a share of any accumulated reserves.

These differences are reflected in the disparity between the market price of preference shares and ordinary shares.

Creation of a new group

On 2 March 2005 the Extraordinary General Meetings of the shareholders of KBC Bank and Insurance Holding N.V. (hereinafter KBC) and Almanij adopted the draft modification of the structure of the Almanij-KBC group under the form of a merger by absorption of Almanij by KBC Bank and Insurance Holding N.V.

The operation should help simplify and rationalise the structure of the group, a single body controlling the underlying companies KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank S.A. Luxembourgeoise (KBL) and Gevaert (see chart).

The new body will have the name KBC Group N.V. (in this section KBC Group N.V. is the non-consolidated body and KBC Group the consolidated body).

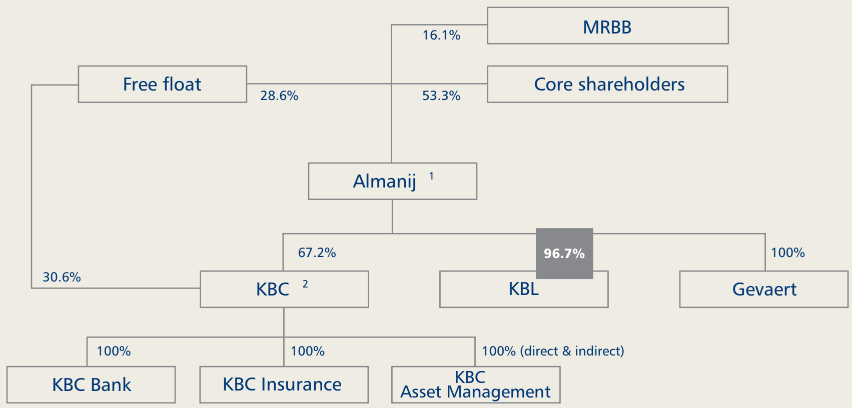
Prior to the effective merger of Almanij and KBC, an unconditional public cash tender offer was made for KBL shares not yet held by Almanij or its subsidiaries. The price offered for each KBL share was EUR 150 per ordinary share and EUR 135 per preference share. This acquisition was partly financed by available cash and partly by existing commercial paper. The public offer closed on 14 February 2005. As at this date Almanij held 96.6% of KBL.

On the merger of Almanij and KBC Almanij shareholders will be allocated new KBC Group shares on the basis of 1.35 new KBC Group shares for 1 Almanij share. The legal status of the new KBC Group shares is the same as that of KBC shares before the merger. On the day following the merger (3 March 2005) there were 366 423 447 KBC Group shares in circulation.

The core Almanij shareholders, who were already linked by a shareholders' agreement, and the *Maatschappij voor Roerend Bezit van de Boerenbond* (MRBB), which is joined to it, are the new group's core shareholders. Together they have a majority stake in the new KBC Group (as at 3 March: 50.1%), a further 3.3% is in the hands of companies within the KBC Group.

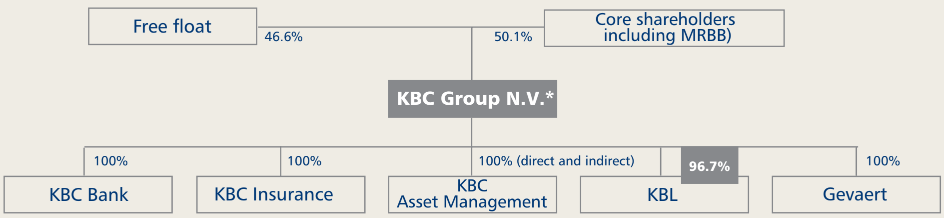
The chart gives a simplified representation of the Almanij-KBC group before and after the merger, as described above.

STRUCTURE BEFORE REORGANISATION (AFTER THE TAKE-OVER BID FOR KBL)



1. Almanij shares held by Almanij Group companies represent about 2% of the capital.
2. KBC shares held by KBC Group companies represent about 2% of the capital.

STRUCTURE AFTER THE REORGANISATION



* KBC Group shares held by Group companies represent about 3.3% of the capital.

Transaction rationale

The new structure, in which all the operational bodies are regrouped into a single company listed on the stock exchange, increases transparency and, more importantly, ensures unity of strategy, capital and Group management. The new unified management structure allows more direct control of operational bodies and the exploitation of possible synergies between Group companies. The new Group's more diversified portfolio of activities also gives it a more balanced risk profile.

Risk management, capital allocation, control functions and various framework functions (like company communication) are organised at Group level. Furthermore efficiency is increased by the realisation of synergies in various fields, including private banking (KBL and the private banking network in Belgium), private equity (Gevaert and KBC Investco) and real estate (Gevaert and KBC Bank). The possibilities of further co-operation in areas such as asset management and market activities are also being looked at.

Further the pooling of two stock-exchange listed entities has strongly increased the share liquidity of KBC Group N.V. The free-float of the KBC Group N.V. share has in fact risen from some 30% to around 47%. This increase has significantly improved the visibility of the new group on capital markets. The group also hopes to win a greater weighting in different equity indices, increasing the stock's attraction for investors and making it sought after by a larger number of other banks and stock-market companies.

The stability of the shareholder base is guaranteed by the core shareholders who have a majority stake in the new Group and who have also concluded a shareholders' agreement to this effect. This undertaking, together with solid solvency, good profitability and precise targeting of activities, constitutes a guarantee for the future strategic development of the Group over the long term.

Strategy of the new Group

The new Group allies the importance that the former KBC put on bancassurance (with its unique concept of bancassurance) with KBL's know-how in private banking and Gevaert's skills in the field of private capital.

Geographically, the new Group's focus is Belgium and central Europe for retail bancassurance and services to companies (complemented by its limited presence in certain other European countries) and covers the whole of Europe for private banking. Central Europe - where its presence is focussed on the Czech Republic, Slovakia, Hungary, Poland and Slovenia – and the pan-European banking network (more than 100 establishments in 11 countries) will remain the long-term earnings drivers for the new KBC Group.

Efficiency remains an important objective. Cost-cutting measures, including efforts to simplify products and processes and the various co-operation projects with other financial institutions, which were launched independently in the diferent companies in the Group, remain in place and are complemented by the effects of synergy (on both the revenue and costs level) which which result from the new co-operaton within the Group.

As was the case in various companies before the merger, the Group is seeking to reinforce its solvency and maintain its high ratings. In this respect, the three international rating agencies (S&P's, Moody's and Fitch) have confirmed that the long-term ratings of the holding company as well as KBC Bank and KBC Insurance, will be maintained.

New group's key figures

The new KBC Group is a major financial group in the eurozone. It ranks in the top 10 in banking in Euroland with a market capitalisation of more than EUR 22 billion (mid-February).

The new group is one of the top three in Belgium and has a strong position in retail bancassurance, asset management, private banking and corporate banking. It is also one of the largest groups in central Europe and has a wide private banking network in western Europe. Outside Belgium and central Europe, it is present in a selection of other countries where it has a network of corporate banking branches.

The table below gives an overview of the new Group's key figures (reproduced pursuant to Belgian accounting standards, unaudited figures). The figures are pro forma and drawn up according to IFRS.

KEY CONSOLIDATED FIGURES FOR THE NEW KBC GROUP (IN EUR MILLION)

	31-12-2004 (PRO FORMA)
Balance sheet total	282 015
Shareholders equity	11 902
Risk capital total	20 434
Loans and advances to customers	111 077
Customer deposits and debts evidence by certificates	164 020
Technical insurance provision (including branch 23)	17 190
Stock market capitalisation (in EUR billion)	22
Personnel (FTE)	51 000
Number of clients	11 million
Consolidated profit, Group share	1 682

CONSOLIDATED MANAGEMENT REPORT

1. KBL Group European Private Bankers: A group of private bankers with their ear to the ground

1.1 THE WORLDWIDE POLITICAL, ECONOMIC AND FINANCIAL CONTEXT IN 2004

Equity markets, currency and sectors

Throughout the year, many factors, some positive, some negative, led to uncertainties about macroeconomic developments and those of financial assets. Especially: the terrorist attacks in Madrid in March 2004, the war in Iraq, rocketing oil prices, the fall of the US dollar, US debt, the outcome of the US presidential election, Chinese economic growth and fears of a hard landing, strong profit growth for US enterprises in 2004 and the sluggish recovery in Europe.

On the stock market front, after several upsets, most indices closed the year in the black. Growth was generally between 5 and 12%. Certain indices like the Bel 20 and the MSCI Latin America gained more than 25% in 2004. However, they only made up a part of the loss on other markets in recent years. For European investors whose benchmark currency is the euro, the dollar's fall significantly reduced returns on USD-denominated assets.

The year saw exceptional growth in company profits, especially on the US market. The European situation is slightly different due to the lag in its economic cycle and the strengthening of the euro which will have an inevitable impact on profits in 2005. The situation in Japan was marked by a year of transition which, at its close, marked the beginning of the end of the country's 15 years of deflation.

The main event on the major currencies front was the US dollar's great volatility and a general trend for it to depreciate against almost all the other currencies. The prospect of a EUR/USD exchange rate between 1.20 – 1.30 proved correct. The structural character of US debts leads us to think that the weakness of the US currency will continue.

Most of the emerging markets also posted very good performances in accordance with favourable economic indicators. Active management of our investments in these countries allowed us to benefit from complementary diversification instruments.

From a sectoral point of view, we played the global recovery scenario by overweighting cyclicals, basic materials, energy and tech stocks. However, as we feared a gradual rise in interest rates we were underweight in financials, telecoms and utilities. Finally, we kept a defensive bias by overweighting pharmaceuticals.

Fixed-income markets and alternative products

At the end of 2003 the majority of analysts were predicting a rise in US rates and, in its wake, a lesser one in European rates. Despite the Federal Reserve raising its leading rates fives times during the past year, it should be noted that the rise in long-term rates expected for 2004 did not occur.

We have also reduced our defensive view on bonds since the second quarter of 2004.

In this context of low fixed-income and money market returns bringing various uncertainties on the stock market front, alternative management provides an interesting diversification tool little correlated with traditional asset classes. After nine months marked by a lack of activity and opportunity on these markets we have noticed a recovery shown in positive performances.

1.2 THE EUROPEAN CONTEXT

Regulatory developments in Europe, along with changes in national legislation and regulations, have a major impact on the market backdrop to the activities of KBL Group European Private Bankers. Not only must we keep up to date with these developments, but also, and more importantly, we need to be able to adapt to them to secure our long-term profitability.

The Directive on taxation of savings income

Directive 2003/48/EC of 3 June 2003 which is the outcome of the Feira agreements foresees an exchange of information between countries in the European Union with regard to income (interest) on savings received by individuals resident in the European Union. During a transitional period, Luxembourg, Belgium and Austria are authorised to apply a withholding tax instead of supplying information. This withholding tax on interest payments will amount to 15% for the first three years, 20% for the three following years and 35% thereafter. This transitional period will end and will also involve the exchange of information for these three countries when Switzerland, Monaco, Liechtenstein, Andorra and San Marino agree to exchange information on request according to the OECD model.

Initially, the provisions of the Directive were to come into force on 1 January 2005 if the Council unanimously certified at the latest by 30 June 2004 that Switzerland, Monaco, Liechtenstein, Andorra, San Marino and the dependent or associated territories concerned were applying measures equivalent to those of the Directive. In the course of June 2004, the 25 Member States delayed the date for the application of the Directive to 1 July 2005. In the meantime, the dependent or associated territories (Jersey, Guernsey, Isle of Man, Cayman Islands, Dutch Antilles …) and the third countries (Switzerland, Monaco, Liechtenstein, Andorra, San Marino) have reached agreements with the EU and will apply the system of withholding tax during the transitional period.

Our group has taken all the measures necessary and is assured of being ready on time. In particular, the Bank has trained its advisors, informed clients and developed the necessary IT systems.

Tax amnesties

In Belgium

Inspired by Italy and its "scudo fiscale", Belgium adopted in 2004 the Déclaration Libératoire Unique (one-time voluntary declaration scheme) (DLU). The DLU came into force on 16 January 2004 and expired on 31 December 2004.

The DLU only concerned individuals who benefited from "capital amounts or securities" which were not normally taxed in Belgium. The one-time tax contribution was 6% provided that the amounts declared, excluding bearer securities, were invested for a period of three years in eligible assets such as real estate situated in the EU, securities, or term deposits. A tax contribution of 9% was applied to other investments and to all the declared cases of bearer shares. In the event of repatriating these declared "sums, capital amounts or securities" to Belgium, the DLU had to be made and the tax contribution paid to a Belgian bank, stock agency, or insurance company. If this did not take place, the DLU had to be forwarded and the contribution paid directly to the Treasury Department of the Belgian Ministry of Finance. Due to uncertainties in the unclear legal text, Belgian tax payers interested in this tax amnesty manifested themselves mostly during the last quarter of 2004.

In Germany

The German tax amnesty came into force on 1 January 2004 and will end on 31 March 2005. It concerns both individuals and corporate bodies for the last 10 years at a penalty rate of 25% (35% from 01/01/2005 to 31/03/2005) of the tax base (e.g. 60% of income in the case of taxation of individuals or 20% on capital in the case of death duty). There are no notions of repatriation or anonymity with this amnesty.

The KBL group has organised itself commercially to be in a position to respond to applications from Belgian and German clients and to requests for information and assistance in the framework of these amnesties.

The fight against money laundering and the financing of terrorism

The year 2004 saw most supervisory authorities to which the different members of the KBL Group European Private Bankers report carry out audits in relation to anti-laundering standards and, in particular, to the quality of the controls put into place both when entering into business relations (knowledge of clients, documentation of dossiers) and when making transactions on clients' accounts.

Continuing the efforts made already in the prevention of and fight against money laundering and the financing of terrorism, the KBL & Group Compliance Division forwards the regulations applicable in Luxembourg in this respect (including CSSF circulars) to the different entities in the Bank. Moreover, these regulations are forwarded to each member of the group for application in their establishment, without prejudicing any stricter local regulations.

Measures aimed at increasing even further the quality of dossiers and at perfecting their adequacy with KYC (Know Your Customer) standards have been taken and are currently being applied in the majority of the companies in the group on the basis of action plans drawn up in consultation with the KBL & Group Compliance Division.

1.3 DEVELOPMENTS SPECIFIC TO THE LUXEMBOURG MARKET

Given its resolutely international character and its location in the heart of Europe, Luxembourg is undoubtedly more sensitive than any other European market to the developments described above, notably the tax amnesties introduced in neighbouring countries and especially in Belgium. The demands of transparency, which we will develop further, will continue to be tightened by the Luxembourg supervisory authorities, in line with trends elsewhere in Europe and the world.

Luxembourg's financial marketplace has on numerous occasions in the past proved its ability to manage change, to adapt and to develop new niche markets.

Now, given the present environment, the market needs to focus its energies on remaining competitive. And, provided that it concentrates on innovation and the development of expertise, and continues to benefit from a regulatory backdrop and legal framework guaranteeing investors the flexibility and security they desire, it will succeed in achieving this goal.

A reassuring legal framework

Conscious of its decisive role, the Luxembourg legislator showed again in 2004, in a difficult and changing environment, its great capacity for listening and reacting.

The CSSF circular 04/155 of 27 September 2004 on Compliance reflects the increasingly high stakes related to compliance with the different regulations with which professionals in the financial sector must comply.

The new law of 12 November 2004, which transposed the EC Directive of 4 December 2001 on the fight against money laundering and the financing of terrorism aims to intensify this fight. It includes the financing of terrorism in the anti-laundering provisions and extends its area of application to all professionals in the financial sector in the widest sense, to insurance companies, pension funds, undertakings for collective investments (UCI) and management companies, company auditors, chartered accountants, estate agents, notaries, lawyers, financial advisors, casinos and dealers in high value goods. The obligation to identify clients and their transactions has been reinforced, notably by the request for written proof.

Anxious to further promote the modernisation of its financial centre, the Grand Duchy of Luxembourg adopted the law of 22 March 2004 on securitised transactions, a technique which is already meeting with increasing success in neighbouring countries. It was also important for the Grand Duchy to have its own instrument in this respect.

With the same preoccupation to serve the interests of investors, a law was introduced on 15 June 2004 on risk capital investment companies (SICAR). This is a new instrument which is intended to promote investments in venture capital or private equity by means of a flexible but secure legal framework.

Continuing reactivity

The application of Community texts to European companies will lead to the adoption in the next few months of a draft law submitted on 9 June 2004 on this subject. As a factor of integration on the European scale, the law will also be the opportunity to commence easing some of the current regulations on company law.

The draft law on market abuse, which is currently being examined, is aimed at transposing four Community directives with a view to combining the provisions related to insider trading and manipulation of the market into a single law. The goal of this text is to set up a legal framework to guarantee the integrity of the markets and maintain public confidence in the financial instrument markets.

Finally, for the sake of completeness, we also cite the draft law on the introduction of international accounting standards for granting credit. The draft is aimed at completing the existing legislation on accounts for granting credit by means of Community measures introducing the international accounting standards known by the abbreviations IAS (International Accounting Standards) and IFRS (International Financial Reporting Standards) throughout the European Union.

2. KBL Group European Private Bankers: the evolution of a group of far-sighted private bankers

At the dawn of new developments in the KBL European Private Bankers group in Europe, it is good to take a look at the history of the group to better understand its rapid evolution.

2.1 A LUXEMBOURG BANK AT THE OUTSET

The statutes of Kredietbank Luxembourg were registered with a notary in the city of Luxembourg on 23 May 1949. This was the age when Europe was being rebuilt and the start of a period characterised by unprecedented economic development in Europe.

Our Bank's mission is to give financial support to industry, commerce and the public sector of the Grand Duchy. Its activity was therefore essentially directed towards the Luxembourg economy, which was embarking on a phase of major expansion and thus played an active role in the post-war national boom.

2.2 THE SUCCESS OF EUROBONDS

At the start of the 1960s, the world economy was booming and there was an ever greater need for financing. In 1961 Kredietbank Luxembourg launched the issue of the first international bond in European Currency Units. This borrowing was generally considered to be the first euro-issue on the international capital market. In 1963 Kredietbank Luxembourg managed its first international borrowing in US dollars. The introduction by the United States of the interest equalization tax (IET) in July 1963 and the successive restrictions introduced by the American authorities on exporting capital made it possible for our Bank to considerably broaden its range of activities.

During this period, Kredietbank Luxembourg ranked as one of the pioneers in the Eurobonds market and its position on the primary market grew each year. In 1967 it organised an arbitration service for Eurobonds which quickly guaranteed its place among the leaders with respect to both the number and volume of assets managed.

Thanks to the Bank's permanent contacts with professionals and investment institutions, the Eurobond business led to the development of a whole range of related services such as the custody of bonds, asset management, financial services and tax representation for bonds,

In 1965, on the initiative of our Bank, the Luxembourg authorities authorised the creation of the "financial holding", a formula which greatly facilitated the financing of numerous international industrial groups specifically by Eurobonds.

Ranked among the leaders in the primary market, Kredietbank Luxembourg also played an active role in the organisation of the secondary market of Eurobonds by contributing to the implantation in Europe of a payment after delivery system and by helping to found CEDEL, the neutral, independent delivery centre, which allows professionals to clear transactions in Eurobonds rapidly and efficiently.

Notwithstanding the monetary vicissitudes which shook the world from 1971 on, the Eurobond market reached its peak in the mid 1970s with an annual volume of issues in excess of USD 5 billion. Characterised by its independence and flexibility, the Eurobond market provided valuable services to both public and private borrowers. Kredietbank Luxembourg played an important role in this and managed more and more bonds to rank first in 1974 in the management and co-management of Eurobond issues.

In 1981 our Bank was again amongst the pioneers of the development of the private use of the new European currency, the ECU. The Kredietbank group managed the first borrowing in ECU for the company SOFTE, a subsidiary of STAT, the Italian state telecommunications industry company. Since then, our company managed or co-managed many bond issues in ECU and for borrowers as prestigious as the European Investment Bank (EIB) and the World Bank.

In its role as a clearing bank, our bank was also a member of the group of seven banks responsible for clearing the ECU in collaboration with the bodies responsible in the European Communities and the Bank for International Settlements (BIS) in Basel.

2.3 INTERNATIONAL GROWTH

To complement its international activities from its base in Luxembourg, in the early 1980s Kredietbank Luxembourg established itself in Geneva (Kredietbank (Switzerland) S.A.) and Hong Kong (jointly with Kredietbank N.V. Belgium), then opened representative offices in important financial centres such as London, Tokyo, Madrid and Milan. With a view to diversification and complementarity and to have direct access to the capital market in London, in 1986 the Bank acquired a stake in Brown Shipley Holdings plc, a renowned institution in the City.

Among the factors which contributed to the expansion of Kredietbank S.A. Luxembourgeoise at this time, it is appropriate to mention the remarkable increase in its clientele, both institutional and private.

In the 1980s and 1990s, the expertise acquired with Eurobonds allowed the Bank to offer high performance services and products to a growing clientele of private investors looking for quality and security. This signalled the advent of private banking, which developed from the end of the 1980s with the arrival of Sicavs and the development of investment research.

2.4 THE KBL GROUP EUROPEAN PRIVATE BANKERS

The 1990s marked an important turning point in the Bank's mission. On the strength of its successes and experience in services to international private clients, the Bank was entrusted with a new strategic mission by its core shareholder, the Almanij group: to become its private banking centre in western Europe by offering its experience in international management to an ever larger clientele.

From now on KBL's goal was to continually strengthen its presence in the European private banking centres where it could guarantee its clientele a high performance infrastructure and the required level of expertise, security and confidentiality. As well as Geneva, Basel, Lugano, London and Jersey, KBL has also been present in Monaco since February 1996.

Then in February 1998, the Bank, which was progressively becoming a group, acquired a majority share of 70% in the renowned Spanish bank Urquijo. The same year, the group gained a foothold in France with the purchase of Banque Française de Services et de Crédit, in Paris and in the east of France via the stock exchange company Kempf in Nancy. Merck Finck & Co, a flagship company in private banking in Germany, joined the group in March 1999, as did Henry Cooke Group plc in Great Britain, which was taken over by our subsidiary Brown Shipley. Still in England, the group was reinforced in 2000 by the acquisition of two companies, Cawood, Smithie and Co and Investment Research of Cambridge.

The year 2000 saw the KBL group pursue its desire to confirm its position as a European group while respecting the identity of each subsidiary with the creation of the name and signature "KBL Group European Private Bankers". The external pan-European growth movement was also well underway.

In 2001, KBL Group European Private Bankers bought the Milan stock exchange company Fumagalli Soldan, thereby establishing a foothold in the northern Italian market. A little later, the group expanded to the Netherlands: Theodoor Gilissen, a renowned private bank in Amsterdam, joined us at the end of 2003. Finally, in the summer of 2004, we welcomed the arrival of Puilaetco Bankers, a Belgian private bank strongly represented in the European capital.

In the past few years, the group has thus diversified and significantly increased its client base by means of internal growth and acquisitions with a particular focus, in consequence, on discretionary management.

2.5 THE SUPPORT OF THE KBC GROUP

At the end of 2004, Almanij, our core shareholder, decided to launch a public tender in the Grand Duchy of Luxembourg with a view to acquiring all the ordinary and preference shares of Kredietbank Luxembourg which were not already in its possession.

This operation, which was successfully concluded in February 2005, was the necessary first stage with a view to streamlining our ownership structure. The second stage was the integration of Almanij into KBC Bank and Insurance Holding N.V., following the merger by absorption of Almanij by KBC. The new entity bears the name KBC Group.

Within this new structure, KBL Group European Private Bankers is confirmed in its role as a driving force in private banking thanks to the acknowledged expertise we have acquired through our network of private banks throughout Europe. In Belgium, KBC Bank has historically developed a range of activities in private banking to complement its commercial activities based on its own network of branches. Together, we can achieve profitable synergies in a number of fields of operation. We also hope to be able to improve our profitability thanks to the expansion of our client base to the entire KBC Group, the complementarity of our products and the recognition of our brands throughout Europe.

This reorganisation of the group will also allow us to reach new markets more easily, such as the central European market for example, where KBC has built up a strong representation in recent years.

We will therefore continue to pursue our mission by developing our network of private banks in Europe from our base in Luxembourg, both by internal and external growth, with the total support of the KBC Group, a strong, stable and ambitious shareholder.

2.6 THE SUCCESS OF AN INNOVATIVE MODEL

At the service of our private customers…

The private investors of today need to find a stable, strong and trustworthy partner to advise and guide them through the maze of financial products on offer.

Our group of private bankers offers investors the chance to choose to approach a human-scale bank, specialising in a single core business which it has mastered perfectly. A bank where they will be known and recognised, where they will find customised advice tailored to their specific risk profile. The aim of our group, and each of its members, is precisely this: to offer a personalised service, whilst at the same time giving customers the reassurance of a well-established and robust group. We thus wanted to build a group that is broader, more open and more European than a brokerage company or a simple asset management company but also more flexible and closer to its client base than a multinational finance company.

…within a flexible and efficient management system

But we also want to remain attractive to other partners, banks and management companies seeking to expand and looking to join our group as a means of achieving this goal. Our philosophy is to encourage the entrepreneurial skills of local managers whilst allowing them to benefit from the solid support of a group with a European dimension. In addition, whilst retaining significant means for their business development, they can draw on streamlined, and therefore less costly, common support systems, and unlock synergies in the development of products and solutions tailored to their customers' needs.

One group, three missions

KBL Group European Private Bankers in Luxembourg has three missions.

KBL, the parent company, sets objectives for the entire group and has direct and indirect control over its subsidiaries via the Group Accounts and Audit division, the Subsidiaries Secretariat, the Group Compliance division and Group Risk Management.

Support services have been gradually brought together in Luxembourg with a view to systematically generating intelligent and well-considered synergies in all areas possible. The group has produced far from negligible gains in productivity and economies of scale, principally in the dealing room and back office, but also via the introduction of a shared IT platform.

Lastly, KBL provides services to private banking and institutional clients as a Luxembourg bank.

3. KBL Group European Private Bankers: a group of private banks well established on their national markets

3.1 SUBSIDIARIES WITH A DOMESTIC MISSION

GREAT BRITAIN

Brown, Shipley & Co.

BS&Co is reaping the benefits of focusing its activity on private banking. In the context of rather volatile financial markets, it has been able to record noticeably higher results compared with 2003.

After years of reorganisation and restructuring, 2004 was marked by an improvement in client services, notably at the level of investment policy. The management has also placed great importance on standardising the compliance culture throughout the Bank.

SPAIN

Banco Urquijo

As in 2003, the year 2004 was marked by increased interest on the part of private investors for management products. This positive evolution is seen in the increase of 22% in the assets under management.

On the operational and commercial levels, Banco Urquijo continued to focus on the role of private bank by increasing the number of branches dedicated exclusively to "Banca Privada" and by considerably reducing its loans portfolio. In order to optimise the profitability of our subsidiary, the focus of activities is combined with a policy for controlling costs. Banco Urquijo is positioning itself more than ever as a major player in private banking on the Spanish market.

Banco Urquijo has particularly distinguished itself with its Euromoney ranking in Spain. It is ranked third in the category "Best private banks for high incomes" and fourth in the overall ranking and in business relations with clientele.

GERMANY

Merck Finck & Co. Privatbankiers

The current economic situation in which Merck Finck & Co is working worsened considerably in the course of 2004: the arrival of several foreign banks and the strengthening of the commercial efforts of the major German banks in the field of private banking makes the market highly competitive, both for clients and advisers. Moreover, the German investor is still very averse to risk which leaves the private banker very little scope for activating portfolios.

Refocusing on its mission of private banker involves an overall approach on the part of Merck Finck & Co, including traditional management and financial planning advice. To better serve its clients, Merck Finck & Co has centralised its financial planners in a specialised subsidiary, MF Treuhand.

Merck Finck & Co completed the redesign of its IT architecture in 2004, making it possible to finalise the restructuring and reorganisation of the Bank in 2005. The new policy on loans (aimed at private clients), begun in 2003, has considerably reduced the risks inherent in this activity.

The Executive Committee has seen the arrival of two new members: these will replace the last two managers remaining from Merck Finck & Co's acquisition in 1999, who are retiring.

NETHERLANDS

Theodoor Gilissen Bankiers

The first year as part of the KBL group was characterised by refocusing Theodoor Gilissen on the activity of private banking in the Netherlands. Overseas activities have thus ceased (London) or been sold (TG-België to Puilaetco). Moreover, Theodoor Gilissen has reorganised in order to integrate itself into KBL group's overall approach to private clients.

ITALY

Banca KBL Fumagalli Soldan

The banking licence application was successful in December 2004. The transformation into a bank took place with effect from 1 February 2005.

The banking licence constitutes a major advantage for continuing its development and thus attaining the objectives for the growth of our group in Italy.

The strategic reorientation of our subsidiary, which is now firmly focused on asset management to the detriment of intermediation, has been implemented throughout the year. This has made it possible to achieve a noticeable increase in the funds managed and resulting income. This evolution should continue in 2005.

BELGIUM

Puilaetco Private Bankers

Puilaetco joined KBL Group European Private Bankers in July 2004 and has been able to benefit from the group's experience in different fields (asset and liability management, audit, risk management) and from a fruitful collaboration with the other companies in the group in the framework of the DLU.

The year 2005 will be marked by the continued reinforcement of the commercial teams.

FRANCE

KBL France

The year 2004 was marked by the streamlining of the structure of our French subsidiary, with Kempf S.A. and Europe Egide Finance being absorbed by KBL France. Streamlining will continue in the future.

Moreover, and as planned, KBL France relaunched its process of external growth by means of acquisition, with a view to attaining its critical size, in 2004. A first step in this direction has just been achieved with the acquisition of the company Aurel Leven Gestion at the start of 2005. The growth process is not complete and is to be actively pursued in the future.

3.2 SUBSIDIARIES WITH AN INTERNATIONAL MISSION

PRINCIPALITY OF MONACO

KB Luxembourg (Monaco)

Assets under management continued to increase significantly at our subsidiary in Monaco. A healthy policy of controlling costs and strong organic growth made it possible to double the net result.

SWITZERLAND

Kredietbank (Suisse)

The structural reorganisation of the bank, begun in 2003, was continued in 2004 with the sale of Jacxsens & Partners. KBS consolidates its position as a Swiss bank by having four branches (Geneva, Lugano, Lausanne and Zurich). Moreover, following the acquisition of Puilaetco Private Bankers by KBL in Belgium, KBS has taken over the group holding in Puilaetco Suisse.

As in previous years, KBS continued its programme for controlling costs which is now bearing fruit.

GRAND DUCHY OF LUXEMBOURG

Banque Continentale du Luxembourg

2004 was the last year of existence for this Luxembourg subsidiary, which merged with KBL on 1 January 2005.

Despite preparations throughout the year for the merger, BCL's results were excellent.

Thanks to a significant reduction in costs, but above all to the growth of assets under management, the operational results were far higher than those in 2003.

Kredietrust Luxembourg

Subsidiary of Kredietbank S.A. Luxembourgeoise (KBL), Kredietrust Luxembourg S.A. (KTL) works in synergy with the bank in providing the following services:

- portfolio management for private clients;

- portfolio management for institutional clients;
- management of KBL investment funds and certain funds of other banks within the KBL group;
- investment research, analysis and recommendations, in conjunction with other group companies.

4. KBL in its role as holding company

4.1 THE DRIVING AND CONTROLLING ENTITIES

4.1.1 Subsidiaries Secretariat

The Subsidiaries Secretariat was created in 1997. Its mission is to co-ordinate all relationships between the parent company and its subsidiaries and, to this end, provide support to KBL's Executive Committee.

The Subsidiaries Secretariat is also responsible for overseeing the acquisition of all new operating subsidiaries, co-ordinating the entire process from preliminary research through to the due diligence phase. If necessary it oversees the work involved in disposing of existing holdings.

4.1.2 Group Accounts and Management Audit

Efforts linked to the adoption of IFRS were continued in 2004. The preparation of IFRS quarterly accounting statements, non-consoldiated and consolidated, made it possible for the KBL accounting teams to strengthen their expertise in this standard and to draw up comparative financial statements. The transfer of this expertise to the subsidiaries in the group was assured during missions organised to this effect. Magnitude consolidation software is now being used to produce the consolidated IFRS statements.

For the management audit the development of harmonised management reports throughout the KBL group continued, guided by the observations of the directors of the main group companies. These harmonised management accounts draw not only on financial and account information but also on a range of other activity, productivity and profitability indicators.

When applied to the group's main business lines, these indicators are nonetheless subject to specific developments for Private Banking for internal benchmarking and thus facilitate the reflection and the setting of targets within the group in our basic business.

The 2005 budgetary preparations and discussions were aided by these harmonised management data and in particular by the indicators which translate into figures the commercial strategies, with the emphasis firmly on Private Banking.

Internal benchmarking is supplemented as often as possible by frequent reference to external sector data.

4.1.3 Group Audit

As the group's investments in Europe have grown, so the Bank has stepped up its efforts to tailor internal audit structures to the requirement for constant monitoring of its subsidiaries within the strictly defined framework set out in CSSF circular 98/143 of 1 April 1998 on internal audit procedures. The total number of staff employed in the Group Audit and IT Audit departments has steadily increased, in line with the expansion of the bank's scope of consolidation, so as to ensure that the teams are able to fulfil their responsibilities and, in particular, that all group companies conform to the standards in force at the parent company and the regulatory requirements established by the CSSF.

The KBL Group Audit/IT Audit department has four key missions:

- to establish a coherent plan for audit activity within the group;
- to either conduct or review audits of all accounts within its remit (all the subsidiaries and KBL parent company);
- to diffuse uniform audit methods within all the group's audit bodies;

- and to provide the parent company and subsidiaries, on the basis of harmonised reporting, with optimum visibility on the quality of their internal audit systems.

Within the Group Audit division has an on-going working relationship with the local auditors, whose responsibilities are defined according to international standards in the profession and the requirements established by local supervisory bodies.

A single audit charter is in force throughout the group and an Audit Committee has been set up in each group subsidiary.

A quarterly report known as a "flash audit", detailing the audit activities carried out in each of the subsidiaries, is also produced. This flash audit is combined with the parent company audit, which is then submitted to the KBL Executive and Audit Committees and forwarded to the external auditors and KBL's supervisory authorities.

As part of the drive to enhance the group's internal audit systems, an Internal Monitoring and Audit Programme was launched at the end of 1999. The aim of the programme was to establish a multi-annual audit plan for each group company, covering both operating and IT functions, and map out activities, risks and audit checks for each group company.

Departmental managers are closely involved in the process of mapping out these activities, risks and audit checks. After a systematic analysis of the risks, the map thus produced is used to identify shortcomings in the internal audit system and draw up potential solutions.

By the end of 2004, all group subsidiaries were covered by the plan, with the exception of our Dutch subsidiary, where implementation was postponed until after installation of the new IT system, to take full advantage of the improvements to the internal audit process that would be afforded by the upgrade. Implementation of the programme at our new Belgian subsidiary, Puilaetco, should be finished in the first quarter of 2005.

4.1.4 KBL & Group Compliance division

Like other units in the Bank, the KBL & Group Compliance division is organised in such a way as to provide or carry out, in the subsidiaries, support (advisory activity), guidelines (preventive activity) and adequate supervision (monitoring activity). The division was strengthened again this year so as to be able to help the Compliance Officers in the subsidiaries and their management on a more regular basis so that they are aware of compliance risks, with special insistence on money laundering and how to tackle it. The subsidiaries' Compliance Officers submit quarterly Compliance reports to the parent company, which are then used to prepare the consolidated reports. These reports are presented to the KBL Audit Committee which has now become the Audit & Compliance Committee.

Visits to review aspects of compliance were made to all subsidiaries in 2004 on the basis of action plans identifying gaps in all matters of compliance, actions to be undertaken to remedy the situation and the time these actions would take.

Finally the Compliance Officers from all the company groups meet periodically in Luxembourg with the aim of increasing exchanges and synergies.

4.1.5 Group Risk Management

The Group Risk Management department consists of three units:

- the Risk Control Unit,
- the Risk Management Unit,
- and Group Insurance and Operational Risk.

The *Risk Control Unit* is responsible for controlling market risks (transactions in money market instruments, securities and derivatives, and in the bank's portfolios) and credit risks (counterparty/country risk) at KBL as a Luxembourg bank.

The *Risk Management Unit* acts for KBL in its capacity as parent company of the group. In this respect, the Unit has three specific missions:

- management of market risks at consolidated level,
- consolidated monitoring of counterparty and/or country risk,
- overseeing implementation of the new Basel II Capital Accord at group level.

We are including in the item Risk Management Unit the methodological applications and research related to the totality of the risks included in the scope of the Risk Management Group, such as the risks associated with the interest rate, the exchange rate, market liquidity, credit (counterpart and country), concentration (healthy division of risks between sectors …) and operational risks. To this is added an advisory role related to asset management.

Finally, *Group Insurance and Operational Risk* is responsible among other things for managing the KBC Group insurance programme within the KBL group. In collaboration with KBC Group it identifies risks, draws up contracts and looks after the administrative side of the policies (apart from payments and encashments) as well as any accidents (in co-operation with all departments and/or subsidiaries).

This department is also responsible for operational risk management as explained in Annex 3.

The Group Risk Management department is responsible for producing critical appraisals of any new areas of business the Bank is considering entering, with a view to assessing the associated risks and the resources that may be needed. This process is gradually being extended throughout the group.

Finally, there is the creation of the Risk Management Committee. Two members of the Executive Committee, the managers for Markets and Credits and the head of the Risk Management Group, take part in this committee, which is aimed at managing problems related to ALM risks for the group.

4.1.6 Group Organisation

Group Organisation is in charge of defining the General Principles of Organisation to be followed within the group. These include both regulatory and legal requirements and the organisational implications of the group's strategic orientation.

Communicated by means of the group intranet, they form the top of the pyramid of organisational procedures and make it possible to formalise the lines of conduct for the procedural body of the different entities in the group.

Group Organisation is also involved in the context of the deployment of the IT platform for our subsidiaries. With the service office based in Luxembourg, this makes it possible to mutualise IT costs at group level while ensuring first rate IT tools. Group Organisation supports the IT department by providing subsidiaries with a range of work procedures adapted to the group IT platform which makes it possible to ensure good organisation in terms of efficiency and risk management. Group Organisation also lends its assistance in adapting the structures of the entities and facilitating necessary changes. In this context, it contributes to the creation of common tools within the group.

Finally, Group Organisation is one of the vehicles for reflecting on and putting into place efforts to achieve synergies within the group in all the fields of banking.

4.1.7 European Works Council

The negotiations begun in 2003 between the management and KBL Group employee representatives with regard to setting up a European Works Council reached a successful conclusion in March 2004.

The body thus created aims, in compliance with the law, to "improve cross-border information and consultation for employees".

Such councils have to be incorporated in all corporate groups with at least 1000 employees in all the Member States of the European Union and at least 150 employees in at least two States.

4.2 RISK MANAGEMENT

In its role as parent company, KBL has established strict risk management rules applicable to the whole group.

4.2.1 Credit risk

All decisions relating to loans or advances are the responsibility of the KBL Executive Committee, the KBL Loans Committee or one of the other competent bodies designated under the delegation of powers agreed by the Executive Committee. This delegation of powers is in accordance with criteria established in relation to type of operation, amount, term, risk and guarantee. It is based on the principle of double signatures and involves the at least two people from different entities, to ensure that there is no risk of conflict of interest.

Likewise, the parent company's aim in relation to credit risk is to ensure that risk taking by subsidiaries fully complies with the strategy defined by the KBL group. The loans and advances in question are essentially loans accompanying private banking operations, as well as certain types of well-defined credit operations.

Subsidiaries authorised to carry out lending activities have decision-making autonomy but only within risk limits specific to each subsidiary and type of operation. Such decisions are subject to regular ratification by committees generally comprising one or more members of KBL's senior management.

In addition, all loan proposals, whether originating from a subsidiary or from the Bank in Luxembourg, must comply with the counterparty or country limits defined by the KBL Executive Committee, so as to prevent any excessive concentration of risk with a specific counterparty. Sector concentration is also re-examined each time a new loan proposal is made. Risk concentrations are monitored at consolidated level.

As regards credit risk arising on the group's market operations, the parent company establishes unconfirmed lines by counterparty, by product and by country, both for itself and for each subsidiary. These lines are thus managed at consolidated level and determined centrally.

A more detailed description of the various measures the Bank has been introduced in a bid to optimise credit risk monitoring at group level is provided in Annex 4. Information on the breakdown and quality of credit risks is also included in this annex.

4.2.2 Market risks

Securities activity

We take a prudent approach to business on the fixed-income and equity markets and place a particular emphasis on service.

All our operators, whether they are working in Luxembourg or at one of our subsidiaries, must adhere to limits that are predefined, duly analysed and documented by Group Risk Management. Please see Annex 1 for details on the group portfolio monitoring procedures carried out by Group Risk Management.

Foreign exchange activity

The main focus of the group's foreign exchange activity is customer service. The parent company has an increasingly important role as the privileged counterparty of the group's subsidiaries and is constantly striving to further improve its control and position monitoring procedures.

The Executive Committee has for several years defined the bank's forex lines, established precise internal limits and assigned specific powers to the different operators, in full compliance with the prudential regulations in force. Under the KBL group's general policy, taking positions to bet on a rise or fall in any given currency is not permitted outside pre-established limits. Group Risk Management is responsible for consolidating currency exposures on a daily basis.

Activities exposed to interest rate risk

For the prudential consolidation of group risk, Group Risk Management seeks to control interest rate risk at consolidated level. Each subsidiary reports to the parent company which consolidates exposure in terms of offset annual equivalent risk. This methodology is explained in Annex 2.

Liquidity risk

The Bank is a net lender on the financial markets. Nonetheless, KBL permanently maintains a certain strategic level of liquidity and a portfolio of treasury bills that may be used to release funds via repurchase agreements.

As part of its methodology, the Bank's Asset & Liability Management Committee (ALMAC) carries out a number of ongoing simulation exercises on liquidity levels, using a methodology that will be gradually automated and rolled out throughout the group.

4.2.3 Operational risk

Operational risk undoubtedly remains one of our main concerns, as evident in our unstinting drive to improve our internal audit systems and to actively monitor progress in the implementation of the new capital adequacy regime, in which operational risk plays a significant role.

National and international regulatory developments (CSSF, CAD and Basel II) are methodically analysed and voluntarily integrated within a global action plan at group level.

Management of operational risk is the responsibility of the Group Insurance and Operational Risk unit, which reports directly to Group Risk Management. The Bank's approach to operational risk management, and the initiatives already in place, are detailed in Annex 3.

4.2.4 Legal risk

At parent company level, legal risk is managed by the Legal Department.

Any infringement of legislative or regulatory standards or insufficient protection of the Bank's interests with regard to contractual relations with third parties may lead to losses or even civil or legal action against it or its directors.

From this point of view the Division's main function is to provide legal guidance and advice. All areas of the bank can consult its legal experts on any national or international legal matter. The legal experts also provide support to sales staff in their dealings with Bank clients.

Other key activities of the Legal Department include examining and drawing up agreements, legal analysis of planned operations, advice on acquisitions, reviewing and updating the Bank's standard agreements, and managing any legal disputes that may arise. The Legal Department has been closely associated with the development of the group over the past few years and has thus directly taken part in all the European acquisitions.

As the group has expanded, the Legal Department has also on numerous occasions acted on behalf of subsidiaries, either directly or through lawyers working for the subsidiary, with whom the Legal Department maintains regular contact.

4.2.5 Compliance risks

The KBL & Group Compliance Division is responsible for implementing all measures designed to prevent the Bank and the group from suffering damage or loss, whether financial or otherwise, due to a failure to comply with regulations in force. The main tasks in this area are identifying compliance risks, assisting Management with risk management, organisation, control, devising and developing corrective measures, internal reporting and communication with the public prosecutor and CSSF on money laundering and insider trading matters.

The three-fold role of advice, prevention and control is thus clearly at the heart of the Division's mission.

To effectively avoid reputation risk, the Compliance division has made it a priority to follow banking codes of conduct, anti-money laundering initiatives and those against the financing of terrorism the detection of insider trading and market abuse, investor protection and customer complaints, supervision of employee transactions, and the fight against fraud, including organised tax evasion and, in particular, tax fraud.

It pays particular attention to the bank's client acceptance policy, among others. Decisions on whether or not to accept customers are dependent on the bank having adequate prior knowledge of the customer and the nature and origin of the funds to be deposited with the bank, as stipulated in CSSF Circular 2001/40. Sufficient information must be collected to enable the Bank to form a judgement of the customer. If any doubts as to whether to open an account persist, the application is rejected.

A new Code of Conduct, complemented by rules of honest behaviour, taking into account the principles in the circular CSSF 2001/15 on the rules of conduct in the financial sector, has been drawn up and communicated to all employees in Luxembourg. By means of training sessions, the KBL & Group Compliance Division has reminded all employees of the importance laid on following this Code.

Subsidiaries have been invited to use this text as a model and adapt it to their local situation whilst taking local regulations into account.

4.2.6 Business Continuity Plan

The business continuity strategy is realised through the implementation of the Business Continuity Plan (BCP), which embraces all key activities of Kredietbank Luxembourg and its subsidiary Kredietrust.

Objective

The aim of our continuity plan is to restore key service functions as soon as possible after a disaster, by implementing a series of interdependent procedures, including:

- the Disaster Mitigation Plan, which consists of a set of permanent measures designed to prevent unforeseen incidents from disabling key functions and systems;
- Emergency Response measures, enabling the bank to respond immediately to any incident that may physically endanger persons and bank property;
- the Business Recovery Plan, which establishes predetermined procedures to be implemented as quickly as possible in the event of an incident, with the aim of ensuring the continuity of critical functions and systems or reducing downtime;
- the Business Resumption Plan, initiated and supervised by the Executive Committee, and essentially designed to keep the period of application of the business recovery plan to a minimum and restore full service functionality as rapidly as possible.

The BCP as an operational risk management tool

The Basel II recommendations clearly stipulate the operational risk management measures deployed by banks must take extreme events into account. The implementation of a BCP is explicitly referred to as "good management practice" and satisfies the three essential objectives of any risk management mechanism: firstly, to prevent loss, secondly, to transfer or finance unavoidable risks, and lastly, to be actively prepared for recovery in a crisis situation and to limit the impact of any such incident.

5. Role of KBL in providing support services

The decision was taken to develop all support services in Luxembourg so as to optimise use of group resources, harness intelligent and well-considered synergies between subsidiaries and parent company, and, wherever possible, develop intra-group economies of scale.

5.1 DEALING ROOM CENTRALISATION AND COORDINATION

The market activities of the parent company in Luxembourg focus on two key objectives: on the one hand market risk management and on the other providing intermediation services.

Their first aim is to support the development of our Private Banking and Asset Management businesses, both at parent company level and at our subsidiaries;

In tandem we maintain an active presence on the traditional international financial markets vis-à-vis our banking and institutional counterparties in Europe.

Concentration of flows at Group level

The parent company's dealing room, which is the group's largest, completely fulfils its co-ordinating role in respect of our subsidiaries, besides acting as their privileged counterparty.

Subsidiaries have to carry out all their market operations via the parent company dealing room, so as to reduce the group's global exposure to market risk with the support of an integrated position and flow monitoring system.

Automated processing

For the receipt and treatment of fund and other intermediated flows from our subsidiaries in so far as this is useful we have implemented straight-through-processing (STP) systems ensuring automated transaction processing from the moment an order is entered to the time it is settled, thus minimising order execution times for all group clients. Manual processing is kept to a bare minimum.

5.2 MANAGEMENT AND DISTRIBUTION OF KBL GROUP FUNDS

After a transition period that enabled us to better assess the strengths and weaknesses of our range of Undertakings for Collective Investment (UCI) for our clients across Europe we continued the restructuring of this range to increase specialisation, better equipping us to compete in an increasingly tough market.

This major restructuring, decided upon and begun in 2003, consists mainly of withdrawing certain funds and sub-funds that were either limited in their appeal (duplications, or invested in less promising markets) or considered too small to be properly managed or to justify the related overheads. These closures are usually by means of absorption into similar sub-funds in order to protect our customers's interests. The fields in which we feel we do not have sufficent expertise are delegated to third-party managers. In the context of our *open architecture* policy, we have developed our service with regard to the selection of external funds, which completes the range of funds managed within the KBL group, sub-funds managed by specialised third parties and funds of funds.

In 2004, our process of assigning assets was rewarded with an A rating from Standard & Poor's for the medium sub-fund in our Diversified Securities Fund.

5.3 INVESTMENT RESEARCH

The decision-making process

In parallel with these improvements to fund management systems, the KBL group undertook a review of the decision-making mechanism applied in the design of investment strategies, in recognition of the international dimension that KBL Group European Private Bankers has now acquired.

This review led us to harmonise decision-making processes across all group subsidiaries, regardless of the profile of their customer base. The first change involved a switch to monthly meeting schedules for the different committees, with the aim of improving our ability to respond rapidly to changes in the various markets.

The benefits of wider expertise

The changes mentioned above have led to the reorganisation of our Analysis department. This entity was renamed Group Investment Research & Strategy on 1 April 2004 and is comprised of three teams.

A team of macroeconomic strategists draws up the macroeconomic scenario which forms the kernel of our monthly Investment Committees. It also takes care of day-to-day monitoring and any necessary changes. This scenario is shared by all the management entities in the KBL group.

A second team of strategists in Core Equity Markets & Sector Allocation is in charge of analysing the main equity markets and of issuing allocation recommendations for these markets and the sectors of which they are comprised.

A third team of strategists in Emerging Equity Markets is in charge of analysing the fundamentals of the equity markets in emerging countries and of issuing recommendations for allocations in these markets.

The recommendations of the Group Investment Strategy Team are presented and discussed at the monthly Investment Committee meetings and serve as the basis for all the management entities in the KBL group.

Sharing and communicating information on a European level

A new bimonthly publication, KBL Group Invest, has been introduced for the clientele of group members. Its main goal is to give the private investor a detailed view of our macroeconomic and financial forecasts. It also aims to establish client contact by means of a selection of concrete recommendations and articles introducing specific investment themes or dealing with particular problems related to inheritance or financial planning.

5.4 CENTRALISATION OF GLOBAL CUSTODY ACTIVITIES

This division's strong performance in 2004 was the fruit of a steadfast commitment and drive, firstly, to develop and improve Global Custody services for institutional customers and, secondly, to position the Luxembourg bank, which has solid expertise in UCI services, as a dedicated skills centre serving all KBL group subsidiaries.

In fact, 2004 saw a significant strengthening of the high value-added Global Custodian services we provide to our network of subsidiaries. The main focus of our efforts was to leverage potential synergies and harness economies of scale arising from the centralisation of our custodian banking business in Luxembourg. Looking to the future, we intend to develop still further the range of operational services provided to KBL Group European Private Bankers companies from Luxembourg and also to extend them to the new companies that have recently joined it.

5.5 ROLLOUT OF GROUP INFORMATION TECHNOLOGY SYSTEMS TO KBL SUBSIDIARIES

An efficient service bureau

To optimise our cost structure and release further synergies within our group, we have established a service bureau to assist our subsidiaries in the installation and use of IT applications. The department's work is facilitated by our private network that links all our subsidiaries, with absolute security guaranteed.

For our subsidiaries KBL France, KB (Suisse), Theodoor Gilissen Bankiers, KBL Monaco, Brown, Shipley & Co access to the Swift network has already been consolidated and centralised in a service bureau in Luxembourg.

The second application of the service bureau is to provide subsidiaries with an integrated banking platform built. Use of a common platform is a major contribution to group unity, albeit within the federal model that we have chosen. The common platform is now operational and used to process banking and asset management business at KBL France.

Implementation projects for installing this banking platform within the group are continuing and implementation work is in progress at Theodoor Gilissen Bankiers and Brown, Shipley & Co.

6. Activities of KBL, Luxembourg bank

6.1 PRIVATE BANKING, OUR CORE BUSINESS

A personal welcome

We have paid particular attention again this year to improving both the content and form of our welcome to private clients.

The main hall of our headquarters in Luxembourg, the symbol of our hospitality, has been renovated. It marries fine materials and light to create a warm, welcoming atmosphere right from the start, making it possible to offer an increasingly comfortable, discreet and personal service.

At the same time, we have decided to centralise our advisors in four branches: the headquarters in Luxembourg, Bertrange, Ettelbruck and the Continentale, located at the former headquarters of our eponymous subsidiary. To the great satisfaction of their clientele, all our advisors are now concentrated in these four locations, which have all the IT and professional support necessary.

Needless to say, our sole objective is to constantly improve the quality of our service to an ever wider private clientele and one which is entitled to be increasingly demanding.

To achieve this, we have decided to split our clients up according to the type of service they require. We are in a position to meet every requirement, from the most prudent or conservative investor to the most demanding client who requires a *made to measure* service.

Our Luxembourg clients are in a particularly favourable position as we have put in place a dedicated team of advisors with full knowledge of the particularities of the local market.

Whatever the profile and expectations of the client, our advisors are dedicated to meeting their needs quickly and accurately, guiding them and giving them all the necessary documents. This is illustrated in particular by the numerous questions generated by the Belgian DLU (one-time voluntary declaration scheme). Once clearly informed, our clients were in a position to decide upon their reaction in relation to their interests. In any case, this fiscal measure has had no noticeable effect on the overall funds entrusted to us by our clients.

In July 2005, the European Directive on the taxation of savings income will come into effect. We can already confirm that our IT tools are in place and that our advisors have all the information necessary to guide their clients.

Suitable, evolving tools

In order to ensure a high level of service, numerous IT management tools were finalised in the course of the financial year. We must point out that from now on all stock exchange orders from clients are immediately directed to the markets using an integrated system for straight through processing of orders, to which the settlement components will be added in early 2005.

A leading IT tool, the Intranet Adviser, a database of clients coupled with the new Asset Management Portal linking our European group of private bankers, gives our advisors real added value. Our clients thus benefit from a detailed view of their portfolio and market development forecasts combined with investment recommendations and exclusive product offers.

An integrated range of company funds and third party funds

Alongside those areas in which our know-how has been widely acknowledged and rewarded in recent years, we integrate into our range a selection of the best third party funds in terms of risk/return for the types of assets for which we do not believe we have sufficient expertise, in order to increase the return on our clients' portfolios. This selection is made by our European team of specialists according to a methodology proven over several years. It operates in the context of delegating the management of our non-European products to specialised managers, with a view to perfecting our funds of funds and making our internal range complete.

Priority to private management

The Private Management business is one of the main focuses of development in our group. For this reason, it is important to re-examine how it functions and how much money should be allocated in the light of recent developments.

For reasons of efficiency, we decided to split our activities from July 2004 on: Kredietrust Luxembourg S.A. (KTL) is now only responsible for the technical management of the portfolios entrusted to it, which results in a noticeable reduction in the staff necessary (managers and assistants), and the commercial staff and their administrative support have been assigned to KBL Private Banking. We hope thus to achieve a significant improvement in both the quality of our technical services and our commercial relations.

At the same time, with a view to achieving the qualitative and quantitative objectives we set ourselves with this separation, we have acquired new management software called Equalizer, which has been in use since January 2004.

6.2 SERVICES TO INSTITUTIONAL INVESTORS

KBL, the Luxembourg bank, offers an integrated service to numerous financial players, targeting in particular:

- Undertakings for Collective Investment,
- Pension funds,
- Captive reinsurance companies,
- Luxembourg banks,
- Financial services professionals.

In addition to the availability of integrated structures for the constitution and domiciliation of undertakings for collective investment (UCI) and pension funds via EFA or of reinsurance captives, we also offer banks in the Grand Duchy and other financial service professionals facilities for managed accounts, the custody of funds, routing, and the execution of orders and other dealing room activities.

This range of facilities for companies includes the services of administration and custodian bank for the UCI, to which are added those of EFA (point 6.2.1); the services of our dealing room (point 6.2.2); global custody services and other operational support (point 6.2.3.) and institutional management services (point 6.2.4).

6.2.1 Central administration and custodian bank for Undertakings for Collective Investment (UCI)

The investment funds sector continued on its positive track in 2004 mainly thanks to the recovery of financial markets and the return of investor confidence. At the end of December 2004, the net assets of the funds in Luxembourg amounted to € 1 106.2 billion which represents an increase of 16% in the course of the last 12 months. The total net contribution in capital on the part of investors in 2004 amounted to € 113 billion, compared with € 82.6 billion in 2003 (+ 37%). Luxembourg thus maintains its dominant position in this sector in Europe with a market share of 20.4% (as at the end of September 2004), and ranks third in the world after the United States and France.

Evolution of assets managed by KBL

2004 was a very good year for the Bank in terms of domiciliation and administration of investment funds. Following the trend in Luxembourg, UCI domiciled with the Bank were able to benefit from both the market recovery and that of investments made by individuals.

The total assets managed by KBL rose to the record level of € 28.9 billion as at 31 December 2004, representing an increase of 22 % in the last 12 months in relation to € 23.7 billion at the end of 2003, as compared with the growth of 16% recorded on the market. The number of sub-funds increased by 56 units net and has been above the 500 bar since April 2004 (509 as at 31 December 2004), an increase of 12.1% compared with the previous year.

The Bank has been able to benefit commercially from the introduction of the concept of pension pooling vehicles. In fact, KBL was the first bank in Luxembourg to set up a Sicav for an initial amount of € 1.1 billion for the account of an important European industrial group and which could only be subscribed to by institutions for occupational retirement provision, created on the initiative of the group for the benefit of its employees.

In the private equity sector, KBL received a mandate at the end of 2004 for the domiciliation of two risk capital investment companies (SICAR) in the framework of the new law of 15 June 2004.

The Bank is thus demonstrating its desire to listen to the needs of the UCI market and its dynamic evolution in order to seize every new business opportunity while retaining its longstanding clientele thanks to the constant quality of its services.

European Fund Administration

In the provision of services to the investment fund industry, KBL offers all custodian banking functions while its subsidiary Kredietrust is responsible for central UCI administration. Since 1998 Kredietrust has subcontracted fund accounting and registrar services to a specialist company, European Fund Administration (EFA), in which KBL is the main shareholder.

At the end of 2004, EFA managed 1 489 sub-funds compared with 1 150 at the end of 2003, which represents an increase of 29%. As regards the net assets being managed by EFA, these amounted to € 78.9 billion as at 31 December 2004, or an increase of 14.4% over one year.

EFA now ranks third among fund administrators in the Grand Duchy in terms of net assets, and is number 1 in terms of the sub-funds managed. In the context of the increased speed of the concentration in the sector for managing investment funds, EFA will have a leading role to play in the future, not only in Luxembourg but also throughout the European Union.

6.2.2 Dealing room business

Intermediation

The securities business, including that of intermediation, benefited greatly from the effects of the economic recovery which are now being felt thanks to the good health of emerging countries, notably in Asia, and this despite the uncertainty about the solidity of the growth in both Europe and the United States.

The renewed enthusiasm of institutional and private investors for stock exchange products and, more particularly, for structured products with guaranteed capital, has made it possible to achieve results in line with our budgets, or even to exceed them.

Thanks to our acknowledged experience in managing fund units we rank among the main players on the Luxembourg Stock Exchange. Moreover, we continue to extend our platform for trading third-party funds in order to allow professional clients to benefit from our expertise in this sector.

On the bond markets, contrary to the expectations of operators, yields have continued to slacken. Despite the levelling out of yields which followed in the second half of the year, we have been able to maintain our business at a high level, benefiting notably from our active presence as market maker on our electronic trading platform.

New issues

The new issues market for corporate issuers has decreased yet again. We did, however, still take part in 258 new issues. In order to maintain and develop our bond business, we have strengthened our presence on the bond section of the Luxembourg Stock Exchange, thanks to the automation of the transmission of our quotes. The bank has also become a member of Swissex, the Swiss Stock Exchange. We quote on the Eurobond sector there in order to meet more closely the needs of our Swiss institutional clients.

Cash management

The year was a fruitful one for the treasury business, where our cautious anticipation of fluctuations in the exchange rates of the main currencies allowed us to attain our objectives in terms of profitability. Moreover, in terms of re-using our excess cash, we maintain a portfolio of public Treasury certificates marrying sovereign risk, zero and cash.

We are pursuing a policy of active management of cash in our treasury and our group remains a net lender in the market. In this context, we are resorting more and more to repurchase agreements and reverse repurchase operations to optimise our management of the cash in the group and to make our portfolios and those of our institutional clients profitable. With a view to benefiting from the market opportunities in this sector, we have also integrated into this activity the share borrowing and lending operations for our own account and for those of our institutional clients.

The results of our Foreign Exchange business remain at a very satisfactory level due, in particular, to the activities of our corporate clientele.

6.2.3 The range of operational services

As regards securities custody, the 2004 financial year saw a considerable increase in the volumes of securities in custody. The increases range from 8% to 15%. The most noticeable increase is in our services to institutional clients and in our development as a specific centre of expertise within the KBL group for all our subsidiaries.

The volume of transactions recovered at all levels and particular efforts were made to increase the flow and reduce costs by means of internal restructuring.

Our rate of external straight-through processing is around 90% with the main sub-custodian correspondents. The same STP rate is achieved for clearing operations going through our SWIFT chain of delivery/receipt of securities.

In the market activity sector, good progress has been achieved with the implementation of the new Securities Buying/Selling chain. The beneficial effects of the high level of integration including the routing, intermediation, accounting and clearing of orders should be evident from the start of next year.

Similarly, the strong growth of our Pending business has been managed efficiently by the putting into place of a new integrated module for processing these operations making it possible to master the mass of operations without the need for additional staff.

Our intermediation business in relation to shares in investment funds also saw continued development, as in previous years. Conscious of the specific particularities with regard to offshore UCI, it was decided to have a specialised processing centre centralising all the expertise of the bank, and this is currently being set up. This should make it possible for our bank to further strengthen its advantage in this niche sector in which its excellence is widely acknowledged.

Following the Ecofin agreement on the taxation of savings, wide-ranging changes have been achieved in bank processing systems in order to be able to withhold tax on the different products for the clients concerned and thereby comply with the time limits imposed by the European decisions.

6.2.4 The range of institutional management

Increase in outstanding amounts of institutional clients in the fund

For the third consecutive year, the suspense files for institutional clientele with a management mandate have progressed significantly, mainly due to the effect of new contributions from existing clients.

It should be noted that most of our institutional clients have a risk profile which is very close that of private clients. The latter most often benefit from Luxembourg vehicles such as family holding companies, Sicavs, pension funds and life assurance products. For this reason our bank is continuing to develop its institutional clients as this allows us to test our services with a more demanding clientele and to foresee developments relating to our traditional clients.

6.3 PROPRIETARY ASSET MANAGEMENT

6.3.1 Corporate Banking and International Loans

The year 2004 was marked by a general stabilisation of the results of companies in all sectors and an abundant credit offer which resulted in the lowest levels of corporate spreads for around 10 years.

As our policy is based on high diversity of risk, the quality of our portfolio has remained excellent in these circumstances. Our consolidated ratio of Losses on Credit Portfolio was 0.15% in 2004 and has averaged 0.17% over the past five financial years.

Our international credit business is centralised, as in the past, at our parent company and our Irish subsidiary, KBL Bank Ireland (KBLBI). New international credit commitments were achieved mainly in FRN (Floating Rate Notes) and SAS (Synthetic Asset Swap).

The incorporation into the portfolio of securitised transactions, senior tranche with AAA or AA+ ratings, is carried out entirely by our subsidiary in Dublin. Residential Mortgage Backed Securities constitute the predominant part of KBLBI's securitisation portfolio.

6.3.2 Private Equity

The year 2004 was marked by the overall recovery of the Private Equity business. For the buyout sector, which represents the main category in terms of volume for this class of assets, there was a marked upturn in transactions (trade sales, mergers, refinancing, even entries on the stock exchange), while for the capital risk sector (venture capital) the past year was characterised more by a stabilising of the valuations of investments. This is considered to be a positive phenomenon after two years of significant correcting of assets.

In this context, the bank gradually resumed its commitments towards managers having shown their expertise in the past.

6.3.3 Financial broker services

In the framework of its activity as a private bank, our bank has developed, over a great number of years, a whole range of services linked to the international capital markets. This activity consists of acting both as financial intermediary for the different functions which have to be assured during the lifetime of an issue and also as an intermediary between the Luxembourg Stock Exchange and the different players on the international capital markets for requests for official share listings on the stock exchange.

In the context of increasingly intense competition on the part of the major international banks, which are in a position to offer a global service, we have been able to achieve, even to exceed, the budget targets we set. We should also stress that in the context of our function as a listing agent on the Luxembourg stock exchange, we remain one of the main players in the Grand Duchy.

6.3.4 Human Resources Management

Intensified control of personnel expenses

The personnel expenses containment targets set for 2004 were achieved. As we predicted, measures encouraging staff to take early retirement or unpaid sabbaticals, accept part-time working arrangements, and/or "buy" additional leave entitlements enabled us to reduce the payroll by more than 60 full-time equivalents (to be exact 63 FTE).

Since 31 December 2001 the number of FTE has dropped by 17%, i.e. 240 FTE.

This campaign will continue throughout 2005 and 2006.

Pursuant to IFRS full provision was made for all future costs deriving from the early retirement scheme.

External recruitment, reduced to its simplest expression, continued to give way to large-scale internal mobility, ensuring essential posts were filled: more than 130 people responded favourably to the 'job offers' posted on the Intranet, i.e. 11% of staff.

Integration of Banque Continentale du Luxembourg (BCL) and Puilaetco Luxembourg

All BCL staff were taken over by KBL with effect from 1 January 2005; in order to do this, the different remuneration schemes and extra-legal advantages are being gradually standardised.

Since 1 January 2005 KBL has also been managing the calculation and payment of remunerations for Puilaetco Luxembourg, the recently acquired subsidiary of Puilaetco Belgium.

KBL share option scheme

In September 2004, employees had their first opportunity to exercise the options received for 2001, in the context of the 2001-2005 stock option plan.

Rather than proceed to increase capital, it was decided – in agreement with the shareholders – that employees would sell their options directly to Almanij. In summary, 63% of holders decided to sell to Almanij 51% of the 2001 options, representing the equivalent of 0.4% of KBL's capital.

General evolution of the balance sheet

At the end of the 2004 financial year, the balance sheet total was EUR 26.5 billion, a level comparable to that at the end of 2003. The structure of the Bank's assets has changed very little.

As regards liabilities, debts owing to credit institutions increased again and thus still constitute the Bank's primary source of financing. There was a slight decrease in own funds. However, the bank still remains very strongly capitalised.

Overall, both the liquid assets and short-term debts have remained stable. The bank maintains a very comfortable liquid asset position.

Liquid assets and loans to credit institutions

Treasury bills and other bills eligible for refinancing have decreased by almost 10% compared with the end of 2003. This decrease has been compensated for by an increase in loans to credit institutions and bonds. The increasingly important share of Reverse Repo operations in loans to credit establishments should be noted.

Participating interests, shares in associated companies and the equity portfolio

The item *Shares in associated companies* increased by almost 20% in 2004 from EUR 1.07 billion to EUR 1.28 billion. This increase is due to the acquisition of Puilaetco Private Bankers, the purchase of shares in Banco Urquijo from minority shareholders and the contribution to the capital increase of Fumagalli Soldan.

Holding and acquisition of own shares

KBL was required to make market purchases and sales of own shares (both ordinary and preference) in 2003 to meet market liquidity requirements. These shares were all acquired and sold at the price prevailing on the Luxembourg stock exchange.

As at 31 December 2004 the Bank's portfolio contained 6 495 ordinary shares and 15 076 preference shares — a total of 21 571 own shares, as against 60 at the end of 2003.

At the beginning of 2005 all these positions were wound up as part of Almanij's take-over of KBL shares.

Evolution of deposits

As regards liabilities, debts owing to credit institutions continue to increase (+9.3%). This is due notably to the bank's use of repurchase agreements.

Just like at the end of 2003, the amount of debts owing to credit institutions are in excess of assets in banking funds. Nevertheless, taking into account the high amount of public effects, the bank maintains a position of net lender on the market.

Debts owing to clientele show a slight decrease (-5%) but still represent 39% of liabilities. They broadly cover the bank's credits to clientele and its share portfolio.

Adequate capitalisation

Overall, own funds and assimilated funds are slightly lower compared with the end of 2003 (-4%) before the distribution of profit. It should be remembered that at the start of 2003, the bank launched a hybrid capital issue on the institutional market for JPY 20 billion, i.e. EUR 143 million, with a view to reinforcing its capital base. By virtue of the structure and consent obtained from the CSSF, this bond has been assigned to the basic capital (Tier 1).

Before distribution of the results, the non-consolidated capital used in the calculation of the Capital Adequacy Ratio was EUR 1.95 billion as at 31 December 2004. The non-consolidated solvency ratio is stronger at 35.3% compared with the 33.9% level achieved in 2003. The return on equity (ROE) reached a level very close to that of 2003, namely 15.8% as compared to 16% the previous year.

The expiry of two borrowings explains the slight decrease in subordinate liabilities, which still represent EUR 970 million.

Decrease of the interest margin and increase of net commissions

The net interest margins decreased noticeably in 2004, influenced by the expiry of high return operations and the negative impacts on the financing levels in foreign currency of certain assets.

In contrast, the evolution of commissions is particularly positive. Commissions received were almost 20% higher compared with the previous financial year, which indicates growth of 16% in net commissions.

Revenue from securities down

Revenue from securities decreased by 52%. Dividends collected by subsidiaries are stable or slightly higher. But the 2004 financial year does not benefit from any exceptional item as in 2003. It should be remembered that in 2003, the profit from the liquidation of KB Ré was shown under this item, following the bank's decision to centralise all its reinsurance contracts with one single captive.

Results from financial operations and other products

The evolution of the results from financial operations is by definition extremely volatile from one year to the next. In 2004, there was a positive result of EUR 59 million; in 2003, there was a negative result of EUR 28 million.

In contrast to the previous financial year, the investment portfolio for countries converging towards the euro in the context of their integration into European Monetary Union had a positive impact on the results in 2004.

Control of overheads

Overheads, which were reduced significantly in 2003, are under control. They even decreased by 0.2% in this period.

Given the decrease in revenue, the control of overheads and administrative costs did not, however, make it possible to maintain the ratio of overheads to the net banking return on a par with the two previous financial years. It is therefore 45% in 2004, a level which is still totally acceptable.

Maintaining a prudent policy in relation to reserves

The bank has maintained its prudent policy with regard to reserves.

Nevertheless, the evolution of underlying risk and some recoupments made it possible to achieve net gains in 2004, both on the level of the credit portfolio and the share portfolio.

The fact that the reserves recover when credits or shares are sold is testimony to the historically prudent policy as regards credit.

Exceptional results

In 2004, the Bank pursued the policy it began in 2002 of encouraging early retirement. In this context, it records a new endowment to the provisions for early retirement of a higher amount than in 2003.

The impact of these exceptional costs was compensated for in the results by the recovery of the fund for general banking risk.

Tax reductions

There was a reduction in the tax burden in 2004. This is the result, in part, of the exoneration from tax of certain non-recurring items.

Increase in profit of 4.6 %

In total, despite a decrease in the net banking income, there is a 4.6% increase in net profit to EUR 188.2 million.

Annex 1 - Securities activities

On the bond markets, which are classic OTC markets, our know-how has historically been respected, making us not only the operator of choice for managing the internal flows generated by our private and institutional banking activities but also the counterparty of choice for our vast network of selected professional counter-parties. The group's subsidiaries, which act directly in their domestic markets where there is added value, are placing more and more of their orders with the parent company's dealing room.

In this business, the assumption of risk, where applicable, is subject to predetermined limits and restricted to certain activities and products, which are duly documented by the Risk Management group. On principle, positions are mainly taken to support the group's "customer" business and are subject to monitoring by the Group Risk Management department.

On the equity markets, which are by their nature organised markets, our main function is to provide brokerage services. Our aim is to channel our customers' flows towards the organised stock markets, either directly or through approved brokers, as far as possible by automated means.

Our counterparties are duly authorised and selected on the basis of administrative and reporting performance criteria, amongst other factors. Brokerage commissions are agreed with each counterparty in advance.

Orders above a certain size are handled, on the request of those making the orders, by a team of traders. In all share trading activities we adhere to a policy of continuous monitoring that aims to guarantee the most efficient order execution service possible.

Our approach to taking positions on our own behalf is a conservative one and we engage in this activity on an incidental basis only. Such activities are subject to strict rules and are monitored directly by the relevant dealing room managers and/or the group's general bank management team, to ensure compliance with the rules established by the Group Risk Management department. The department also reports on subsidiary positions to the management of the parent company.

Annex 2 - Activities exposed to interest rate risk

OFFSET ANNUAL EQUIVALENT RISK MEASURE, A GROUP-WIDE MEASUREMENT MODEL

First, the Bank's balance sheet is divided up into financially representative positions. A sensitivity limit (or offset annual equivalent risk) is then assigned to each of these positions which are tracked in real time by the dealing room and monitored by the Group Risk Management department. The offset annual equivalent risk measure represents the annual equivalent, by volume, of all positions exposed to interest rate risk, once all expiries have been offset against each other and then consolidated. Sensitivity limits are calculated for each currency individually on the basis of any adverse 1% movement in the interest rate payable on that currency. The absolute values of these sensitivity limits are then added together to give a global sensitivity limit (all currencies) or offset annual equivalent risk.

Offset annual equivalent risk is used to measure the mismatch between open positions.

We have subsequently implemented an analysis model that enables us to offset and track both balance sheet and off-balance sheet items for each activity individually. This analysis of interest rate risk and balance sheet margin enables us to link the account approach and the financial approach.

The Management Audit department prepares a monthly report on interest rate exposures for submission to the Executive Committee. This report is based on the analytical breakdown of interest rates, which is in turn based on average capital data from the centralised system, expressed, for each accounts item, as average capital calculated according to value date and interest rate exposure. It enables the bank to calculate interest margins for each "capital" activity and is also used to measure the performance of treasury activity.

The principle behind the model is that certain liability items may finance certain asset items and, conversely, that certain liability items may be invested in certain asset items, subject to regulatory constraints on linking and any additional restrictions resulting from internal strategic decisions. Any asset and liability items without a specific link of this kind are assigned to the Treasury pool for investing or refinancing. Effective interest rates are taken into account for non-zero rate assets and liabilities (e.g. Clients, Portfolios) and a market disposal rate applied for links affecting a group of zero rate items (e.g. shareholders' equity and fixed assets).

In addition to centralised internal flows, all interbank operations carried out by the Treasury department, including mismatched transactions, are assigned to the pool; this enables the bank to determine the net interest margin on treasury activity.

The report produced by the Management Audit department does not measure risks in terms of interest rate exposure but is used by the Group Risk Management department for reference in certain interest rate risk analyses, in particular the risk on the Bank's securities portfolio.

The Bank's dealing room and Group Risk Management department use an interest rate risk measurement system called Kondor+. This system incorporates all positions exposed to interest rate risk (assets, liabilities and off-balance sheet items) and covers both trading and non-trading balances.

Annex 3 - Operational risk

DEFINITION

Operational risk is the risk of direct or indirect losses resulting from inadequate or deficient internal procedures, individuals, systems or external events.

GENERAL ORGANISATION

In accordance with IML (Luxembourg Monetary Institute) Circular 98/143, the Bank's internal audit system establishes the following audit requirements:

- first-level daily audits by order executors;
- ongoing critical controls by persons overseeing order processing;
- management audits of all activities and functions falling under their direct responsibility;
- second-level controls by the Internal Audit department.

Top-quality, efficient internal audit systems that are constantly monitored by an independent internal audit team and a robust administrative and accounts structure supported by IT systems that are both physically and logically secure are key to minimising known operational risks.

The Bank's general organisation structures are deemed adequate in this respect, for the following reasons:

- one member of its Executive Committee has been assigned overall responsibility for the Bank's administrative and accounting organisation;
- the Bank's organisational structures, line management and functional divisions ensure appropriate segregation of the various functions and the staff performing them;
- written procedures have been drawn up for all functions;

- the audit team's mission includes checking that areas audited are covered by procedures;
- all procedures can be consulted on the group's Intranet, ensuring that all employees have access;
- any process engaging the Bank's responsibility and all related decisions are documented;
- order inputting follows a very strict procedure, involving at least two persons (one inputting data, the other authorising), and in some cases three, and is carried out as close as possible to the place where the order is taken;
- all transactions made on customer accounts are accounted for in real time in an application enabling the bank to monitor risk and liquidity positions in parallel, both at account and global client level;
- the accounts department identifies and records transactions, justifies changes in accounts balances, prepares reports and keeps accounts ledgers;
- the Bank's IT system is tailored to its requirements and complies with the provisions of IML Circular 96/126 in all of the following respects: hardware configuration, applications in use, physical and logical security, structure and procedures in place.

The bank has established a back-up site from which all central applications can be restarted, without loss of information, in the event of an incident affecting the operating centre.

The production and back-up computers are located at two sites several kilometres apart and are linked by fibre-optic cables running along two different routes, enabling real-time synchronisation. Thus, all data recorded on magnetic disks at the production site are simultaneously copied onto disks at the back-up site.

Similar infrastructures have been established for data stored on magnetic cassettes, some of which is essential to the smooth functioning of the recovery process.

The various network components are configured in such a way that all users of the Bank's IT systems can switch rapidly to the back-up site. The procedure for effecting this switch is tested twice a year.

This IT back-up plan, which was fully implemented in 2004, is an integral part of the BCP (Business Continuity Plan), described in section 4.2.6 of this report. The Plan consists of a structured series of provisions designed to ensure the bank can continue operating in the event of a disaster.

TRANSFER OF RISKS

Since 1999, an international programme of insurance has been put into place in order to guarantee optimal, standard cover for all the companies in the group.

The four main areas of an efficient risk transfer policy are dealt with by means of appropriate insurance policies, namely:

- *human resources* (protection against damage liable to arise involving members of staff);
- *material resources* (protection of goods belonging to the different companies in the group);
- *financial resources* (protection of assets held by the companies in the group, their income etc.);
- *miscellaneous responsibilities* (protection of the assets of companies in the group in the event of claims lodged by third parties).

As with the other insurance polices taken out solely by the Bank, this international programme is managed by the Group Insurance and Operational Risk, which is part of the Group Risk Management.

Following the reorganisation of the Almanij holding which saw the creation of the KBC Group on 2 March 2005, the management of insurance must be brought in line with that of the KBC Group. Banking insurance policies will be transferred progressively to KBC. The philosophy applicable to new programmes is similar to that which was in force at KBL:

- risk is transferred to the market and/or the KBC Group reinsurance captive, the decisive criterion being the relationship between the premium and the proposed cover;
- cover is either international, in which case it covers one or more types of risk(s) for KBL and all its subsidiaries via the KBC Group policies, or local, which then supposes that a single entity is concerned.

In collaboration with KBC Group, KBL participates in the identification of risks, the finalising of contracts and the administrative follow-up of policies (except related payments and receipts), as well as in the management of incidents (with regard to all entities and/or the subsidiary concerned).

METHODOLOGICAL ISSUES

The new minimum capital requirements entail paying close attention to operational risk analysis and assessment.

Following the reorganisation of the Almanij holding, which saw the creation of the KBC Group on 2 March 2005, KBL Group operational risk management has to be brought in line with that of KBC Group. As it has been decided that the standardised method of calculating regulatory capital will be adopted for all the banking activities of the new financial conglomerate, this method will also apply to the KBL group.

KBL group has therefore adopted the Standardised Method for calculating regulatory capital and for the effective management of its operational risk, while laying strong emphasis on the qualitative aspect induced by this method.

To begin with, our approach will be based on:

- the KBL database of incidents; and,
- the implementation of an automatic risk/control evaluation policy.

At a later point in time, we will complete our database of incidents with an external database, and will develop indicators of risk and exposure.

Moreover, KBL group will put into place a method for calculating economic capital and, to achieve this, will progressively put into place over the coming years an internal method for measuring operational risk based on the Advanced Measurement Approach, in order to measure the amount of economic capital taken up by this risk.

Annex 4 - Credit risk

In its capacity as parent company, KBL seeks to optimise credit risk management by applying strictly predefined rules, listed below, across the whole group.

DECISION-MAKING PROCESS

All decisions relating to loans or advances are the responsibility of the Executive Committee, the Credit Committee or one of the other competent bodies designated under the delegation of powers agreed by the Executive Committee in accordance with criteria established in relation to operation type, amount, term, risk and guarantees. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of any conflict of interest. All decisions taken on the basis of a delegation of powers must also be reported to and approved by the senior body.

These principles are applicable at both the parent company and all group subsidiaries.

CONTROLS IN PLACE

The Bank has set in place several controls to optimise credit risk management at the time a credit decision is taken and a lending operation set in motion.

Thus, for each new loan proposal, a financial analysis of borrower risk is carried out by an independent company that examines the borrower's financial position with a view to assessing its credit quality, independently of any analysis provided by external rating agencies.

The parent company's Executive Committee has also taken several framework decisions on lending transactions.

For example:

- all loan proposals must comply with the counterparty or country limits established by the Executive Committee, to avoid any excessive concentration of this respect. Sector concentration is also re-examined each time a new loan proposal is made. Concentrations are monitored at consolidated level, i.e. taking our subsidiaries' commitments into account;
- the Executive Committee has also established an emerging market risk limit, along with specific thresholds for certain market niches. These set the maximum lending levels authorised for these activities, which are only carried out by the parent company;
- the Executive Committee has also established risk acceptance criteria to be used as benchmarks in decision making;
- finally, the parent company has ensured a separation of tasks between the bodies empowered to authorise the granting of loans, the departments responsible for contractual matters, the departments responsible for making funds available and booking loans and those in direct contact with the borrower. Further, all new loan proposals pass through a middle office that independently examines the merits of the proposal and issues a recommendation and an opinion intended for the body charged with ruling on the request.

As regards credit risk arising on the group's market operations, the parent company establishes unconfirmed lines by counterparty, by product and by country, both for itself and for each subsidiary. These lines are managed at consolidated level and determined centrally. They are set by the Executive Committee or the relevant bodies empowered to do so under a delegation of powers granted by the Executive Committee. The lines are established on the basis of criteria that take into account both the quality and size (measured by shareholders' equity) of the counterparty and also the size of our group (measured by our consolidated shareholders' equity).

At the end of 2004, 90% of the unconfirmed lines of credit were opened with Western European banks, while 7% were opened in North America. Counterparties with an external rating of A or higher or "name-related" subsidiaries of such banks accounted for 94% of the lines.

RISK MONITORING

As part of the Bank's monitoring of outstanding credit risks, various measures have also been set in place to minimise the risk of portfolio deterioration.

These include:

- the preparation of reports, at least once a year, to monitor the concentration of our risks by sector or by borrower;
- reports by type of activity (asset-based, SAS/FRN, CDS, securitisation, emerging markets) are also produced once a year, as is a report on problem loans, which is also used to determine what level of specific loan provisions may be required;
- finally, all at-risk borrowers are reviewed at least once annually based on their financial statements. If certain factors likely to increase the risk are noted, specific reviews may even be carried out more frequently. This

is also the case for all interbank and country risks and unconfirmed lines of credit established in this context.

All these reports are prepared on a consolidated basis. They are passed up to parent company Credit Committee level and, in most cases, to the Executive Committee. A middle office, comprising the Financial Analysis department and Loan Management department among others, is responsible for the independent preparation of these reports.

The Bank has the following tools for the day-to-day monitoring of lending transactions on its own portfolio:

- an IT application for monitoring guarantees and loan repayment schedules,
- automatic daily monitoring of breaches of credit or overdraft limits and instances of insufficient cover for loans backed by securities, allowing for immediate detection of irregularities and consequent rapid implementation of appropriate corrective measures,
- automatic tracking of changes in the ratings of externally-rated borrowers.

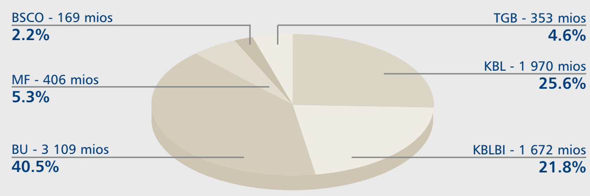
The Bank also has Global Exposure Monitoring (GEM) software, a centralisation tool for group-level unconfirmed interbank and country lines and the Bank's credit risks. This tool also serves as a basis for the Risk Control Unit's daily monitoring of any excess on unconfirmed lines of credit.

PORTFOLIO COMPOSITION

To analyse the distribution of our credit risks, we examine the composition of the loan portfolios operated by the main group companies active in lending. The "consolidated" figures given below include the outstandings of KBL, KBL Bank Ireland, Brown Shipley, Merck Finck, Banco Urquijo and Theodoor Gilissen Bankiers and represent around 95 % of the KBL group's total loan portfolio.

Loan activity has been deliberately reduced since 2000 and as at 31.12.04, the value of the loan portfolio was just EUR 7.68 billion, a drop of 20% compared to 2003.

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY GROUP ENTITY



The other subsidiaries, namely Banque Continentale du Luxembourg, KBL France, KB Luxembourg (Monaco), Kreditbank (Suisse) and Fumagalli Soldan and Puilaetco Private Bankers are excluded from the consolidation sphere, since either they do not actively lend (or not to a significant extent) or else the nature of their operations (mainly lending to private clients backed by diversified securities portfolios) does not give rise to any significant risk of loss.

The credit commitments of KBL and KBLBI, mainly high-quality externally-rated liquid international loans, make up 47.4% of the consolidated portfolio.

The lending activities of our UK subsidiary Brown Shipley are now limited to certain types of operations and to loans accompanying private banking operations.

Merck Finck has also been voluntarily scaling down its lending activities since 2000, to now prioritise loans accompanying private banking activities. Its lending policy and decision-making procedures have also been reviewed in this framework. In 2004 Merck Finck's portfolio shrank by 35%. Since the end of 2000, there has been a 75% decrease, the Merck Finck portfolio representing just 5.3% of the consolidated benchmark portfolio.

Moreover, following this increased standardisation of credit products and the introduction of new software, it was possible to implement the restructuring of the Risk Management entity in the course of the last financial year, with the objective of reducing accompanying costs. In order to facilitate this restructuring while maintaining adequate control of risk, the stock of existing credits no longer complying with this new credit policy will be subject from now on to close follow-up by the parent company, which also assumes the risk.

In line with the desire of the parent company to also reduce the size of the Banco Urquijo credit portfolio, a very precise action plan was put into place in 2004 which made it possible to reduce by more than € 500 million the overall volume of this credit portfolio. At the end of 2004, the commitments of Banco Urquijo constitute just 40.5% of the consolidated pending credit, as opposed to 43.3% at the end of 2003.

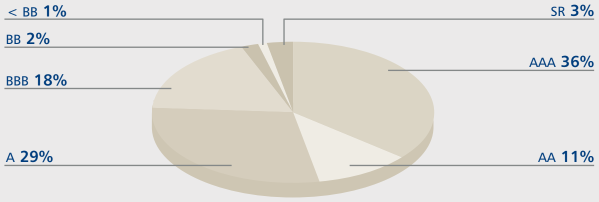
The lending activities of Theodoor Gilissen are also related to its private banking business in the sense that loans are granted primarily to its asset management customers. The Theodoor Gilissen portfolio comprises both Lombard credits, guaranteed by diversified portfolios, and mortgage credits, mainly residential, granted on the basis of an amount of less than 75% of the value of the forced sale of the fixed assets.

1. Breakdown by rating

Investment grade securities make up more than 94% of the international portfolio held at KBL and KBLBI and another 3% comprise top-quality corporate issuers not rated by external rating agencies.

This illustrates the quality of our portfolio and its limited exposure to emerging countries and economies.

KBL + KBLBI - INTERNATIONAL SECURITIES PORTFOLIO BY RATING



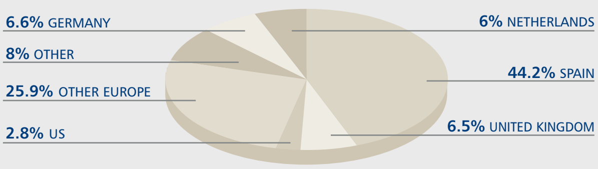
2. Breakdown by region

Borrowers from Europe make up 89% of the portfolio. US accounts make up 3%, with only 8% from other geographic zones.

KBL and KBLBI mainly lend to borrowers within the European Union and the rest of Western Europe. US borrowers accounted for 6% of overall loans outstanding at the end of 2004.

Banco Urquijo, Merck Finck, Brown Shipley and Theodoor Gilissen lend almost exclusively on their domestic markets of Spain, Germany, the UK and the Netherlands respectively.

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY REGION



3.Breakdown by sector

A large proportion of the mortgage loan portfolio consists of securities backed by first lien mortgages, mainly residential, all senior tranche, rated AAA or AA+. The portfolio is well diversified and spread over a large number of exclusively European Union countries (Belgium, Netherlands, UK, France, Italy, Spain and Portugal). The Property sector also includes the property-related loans of our Spanish, German and Dutch subsidiaries.

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY SECTOR AS AT 31/12/2004

PROPERTY	17%
FOOD - TEXTILES - RESTAURANT & CATERING	9%
BANKS	9%
NON-BANKING FINANCIAL INSTITUTIONS	8%
SUPRANATIONAL – SOVEREIGN – MUNICIPALITIES	7%
LEISURE AND OTHER SERVICES	7%
BUILDING MATERIALS AND CONSTRUCTION	4%
TELECOMMUNICATIONS – MEDIA	4%
ENERGY AND WATER	4%
MECHANICAL - ELECTRICAL - ELECTRONIC	3%
AUTOMOTIVE	3%
CHEMICALS	2%
OTHER	5%
UNASSIGNED	18%

No sectors, other than property, account for more than 10% of the consolidated portfolio.

After property, food/textiles/restaurants&catering and non-banking financial institutions have the heaviest weightings. The first of these two was down in absolute value (-30%) and compared to 2003. Outstandings to banks rose slightly in absolute terms (+3%) but were clearly up in relative terms.

The ‘unassigned’ percentage dropped slightly on 2003 (19%).

Specific loan provisions

Below we list specific provisions established in respect of the consolidated loan portfolio as at 31 December 2004 and the changes in these provisions over the course of 2004.

As at 31/12/2004 (in EUR million)	Gross loans	Specific loan provisions	Net loans
More than 90 days overdue	100 078	62 897	37 181
Restructured country loans (inherited from past)	60 265	32 483	27 782
Other doubtful debts	122 257	22 936	99 321
All doubtful and non-performing loans and advances	**282 600**	**118 316**	**164 284**

	Percentage loss on consolidated loan portfolio
FY2004	0,15%
Average 2000-2004	0,17%

SPECIFIC LOAN PROVISIONS (in EUR million)

Total provisions at start of period	167,95
Transfers from income statement	
Increase in provisions	+20,55
Reduction in provisions	-33,51
Applications	-32,07
Adjustments for exchange rate variations	-4,60
Total provisions at end of period	118,32

ALLOCATION OF PROFIT AND PROPOSED DIVIDEND

	in EUR
After the constitution of provisions and necessary depreciation and amortisation, profit for the financial year ending 31 December 2004 was:	
	188 233 351,69
Balance carried forward	552 349,07
Profit to be distributed	188 785 700,76
Pursuant to legal and statutory provisions, we propose to allocate this profit as follows:	
Statutory reserves	0
Dividend	125 021 548,05
Board of Directors	1 539 750,00
Reserve for imputed wealth tax	19 170 000,00
Voluntary reserves	42 500 000,00
Carried forward	554 402,71
	188 785 700,76

Subject to approval of this allocation, and on the basis of a gross dividend of EUR 6.15 per share, a net dividend of EUR 4.92 will be paid at our offices from 28. April 2005 upon production of Coupon No. 8 on the 18 353 387 ordinary shares and Coupon No. 7 on the 1 975 320 non-voting preference shares outstanding as at 31 December 2004.

COMPOSITION OF THE BOARD OF DIRECTORS

At its meeting of 16 June 2004, the Board of Directors unanimously co-opted Mr Diego du MONCEAU, company director, as a director. The Annual General Meeting will be asked to confirm the election of this director.

The mandates of Messrs Jan HUYGHEBAERT, Etienne VERWILGHEN, Rik DONCKELS and Jean-Paul LOOS as directors expire at the Ordinary General Meeting of 2005.

It is proposed that the mandates of Messrs Jan HUYGHEBAERT, Etienne VERWILGHEN, Rik DONCKELS and Jean-Paul LOOS be renewed for a further period of six years.

In addition, Messrs Jean-Marie BARTHEL and Paul BORGHGRAEF have decided to relinquish their mandates as director as from the present General Meeting, having communicated this decision in writing to the President of the Board of Directors on 16 March 2005. The Board thanks them for their active participation over the years that they have worked on the Board of Directors.

It is proposed to the General Meeting that Mr Philippe PAQUAY, member of the Executive Committee of the Bank, be called upon to replace Mr Jean-Marie BARTHEL. Mr PAQUAY'S mandate will expire at the General Meeting of 2009.

Furthermore, the Board proposes to the Meeting that Mr Marc WITTEMANS, Director and Secretary on the Board of MRBB be appointed as director for a term of six years until the General Meeting of 2011.

Luxembourg, 16 March 2005

The Board of Directors

AUDITORS' REPORT ON THE CONSOLIDATED BALANCE SHEET

UNRESERVED CERTIFICATION OF THE AUDITOR

To the Board of Directors of Kredietbank S.A. Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached consolidated accounts of Kredietbank S.A. Luxembourgeoise for the year ended 31 December 2004 and have read the related management report.

The consolidated accounts and management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated accounts based on our audit and to verify the consistency of the management report with the annual accounts.

We conducted our audit in accordance with international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts. It also includes assessing the accounting principles and methods used and significant estimates made by the Board of Directors in preparing the consolidated accounts, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the assets, liabilities and financial position of Kredietbank S.A. Luxembourgeoise as at 31December 2004 and the results of its operations for the year then ended.

The management report is consistent with the consolidated accounts.

DELOITTE S.A.
Auditor
Stéphane Césari
Partner

16 March 2005

AUDITORS' REPORT ON THE NON-CONSOLIDATED BALANCE SHEET

UNRESERVED CERTIFICATION OF THE AUDITOR

To the Board of Directors of Kredietbank S.A. Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached annual accounts of Kredietbank S.A. Luxembourgeoise for the year ended 31 December 2004 and have read the related management report. The annual accounts and management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to verify the consistency of the management report with the annual accounts.

We conducted our audit in accordance with international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles and methods used and significant estimates made by the Board of Directors in preparing the annual accounts, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the assets, liabilities and financial position of Kredietbank S.A. Luxembourgeoise as at 31 December 2004 and the results of its operations for the year then ended.

The management report is consistent with the annual accounts.

DELOITTE S.A.
Auditor
Stéphane Césari
Partner

16 March 2005

CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2004	2003
Cash, balances with central banks and post office banks	8, 28, 29	238 463 100	776 408 044
Treasury bills and other bills eligible for refinancing with the Central Bank	8, 9, 10, 12, 23, 28, 29	6 004 304 083	6 646 041 081
a) treasury bills and similar		*5 997 716 577*	*6 640 125 309*
b) other bills eligible for refinancing with the Central Bank		*6 587 506*	*5 915 772*
Loans and advances to credit institutions	8, 15, 28, 29	11 916 808 567	11 206 251 546
a) payable on demand		*1 454 489 271*	*1 579 768 780*
b) other accounts receivable		*10 462 319 296*	*9 626 482 766*
Loans and advances to customers	8, 15, 28, 29, 36	4 520 089 383	5 047 099 056
Bonds and other fixed-income securities	8, 9, 10, 12, 15, 23, 28, 29	7 416 321 895	7 338 842 533
a) Public issuers		*4 588 860 026*	*4 120 573 432*
b) Issued by other borrowers		*2 827 461 869*	*3 218 269 101*
Equities and other variable-yield securities	8, 9, 28, 29	207 065 706	282 355 350
Participating interests	9, 11, 12	52 272 510	63 408 160
Shares in associated undertakings	9, 11, 12, 34	42 747 935	42 253 070
Intangible assets	12	12 230 488	4 154 087
Tangible assets	12, 13	329 383 256	343 866 431
Own shares	21	2 938 125	6 297
Other assets	14, 23	245 760 646	350 807 338
Prepayments and accrued income	10	854 606 662	687 675 680
TOTAL ASSETS	**7**	**31 842 992 356**	**32 789 168 673**

The notes follow.

LIABILITIES	NOTES	2004	2003
Amounts owed to credit institutions:	8, 15, 28	13 139 070 130	12 698 756 609
a) Payable on demand		*930 948 898*	*612 369 830*
b) With agreed maturity or periods of notice		*12 208 121 232*	*12 086 386 779*
Amounts owed to customers	8, 15, 28	15 298 007 012	15 925 565 537
a) savings deposits		*804 713 538*	*866 116 209*
b) other accounts payable		*14 493 293 474*	*15 059 449 328*
ba) payable on demand		*4 771 949 962*	*3 946 874 946*
bb) with agreed maturity or periods of notice		*9 721 343 512*	*11 112 574 382*
Debts evidenced by certificates	8, 16	148 754 415	373 299 369
Bonds and debentures in circulation		*148 754 415*	*373 299 369*
Other liabilities	17	316 720 615	543 428 568
Prepayments and deferred expenses	10	555 775 813	641 132 041
Provisions for liabilities and charges		373 310 845	357 260 268
a) provisions for pensions and similar obligations		*38 676 085*	*38 114 674*
b) provisions for taxation		*36 300 227*	*84 905 796*
c) other provisions	*38, 39, 40*	*298 334 533*	*234 239 798*
Subordinated liabilities	18	969 778 107	1 011 426 379
Special items with a reserve quota portion	19	3 126 093	8 650 439
Fund for general banking risks		1 663 072	125 111 959
Capital hybrid instruments	20	143 215 181	148 093 299
Subscribed capital	21	188 987 524	188 987 524
Share premium account		354 569 112	354 569 112
Reserves	22	140 928 830	196 692 437
Minority interests		3 525 687	21 080 414
Losses carried forward	22	552 349	666 054
PROFIT FOR THE FINANCIAL YEAR		205 007 571	194 448 664
a) group share		*205 712 526*	*193 115 307*
b) minority interest share		*(704 955)*	*1 333 357*
TOTAL LIABILITIES	**7**	**31 842 992 356**	**32 789 168 673**
OFF-BALANCE SHEET			
Contingent liabilities	24, 28, 29, 36	714 938 170	737 962 548
Of which guarantees and assets pledged as collateral security		*487 974 531*	*455 760 290*
Commitments	25, 28, 29, 36	2 992 840 902	2 821 934 047
Fiduciary operations	26	765 000 126	1 217 592 137

The notes follow.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in EUR, as at 31 December

	NOTES	2004	2003
Interest receivable and similar income		2 040 205 412	2 064 955 934
of which that arising from fixed-income securities		*581 454 587*	*669 192 928*
Interest and similar charges	18, 20	(1 827 473 890)	(1 753 442 578)
Net interest	10	212 731 522	311 513 356
Income from securities		14 569 038	71 323 430
a) income from shares and other variable yield securities		*7 320 411*	*5 084 540*
b) income from participating interests		*3 487 219*	*2 884 649*
c) participating interests and shares in associated undertakings		*3 761 408*	*63 354 241*
Commissions receivable		444 314 632	378 426 819
Commissions payable		(73 822 486)	(61 194 617)
Net commissions		370 492 146	317 232 202
Profit on financial operations		71 925 452	(5 536 636)
Other operating income	31	86 119 180	127 620 275
General administrative expenses		(497 273 773)	(467 829 294)
a) staff costs	*35, 36*	*(318 434 776)*	*(298 544 742)*
of which - wages and salaries		*(251 176 099)*	*(237 609 426)*
- social security costs		*(53 483 727)*	*(49 447 169)*
of which social security costs relating to pensions		*(32 793 780)*	*(29 688 873)*
b) other administrative expenses		*(178 838 997)*	*(169 284 552)*
Value adjustments on tangible and intangible assets	32	(31 959 724)	(41 297 702)
Other operating expenses	33	(28 970 370)	(24 268 703)
Value adjustments and re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		36 060 333	(11 254 097)

The notes follow.

	NOTES	2004	2003
Value adjustments and re-adjustments in respect of transferable securities held as financial assets, participating interests and shares in associated undertakings		19 097 665	2 345 854
Income from the writing-back of "special items with a reserve quota" portion	19	4 581 774	420 739
Income from the writing-back of amounts in the fund for general banking risks		123 528 031	879 394
Tax on profit from ordinary activities	37	(43 152 261)	(52 404 608)
PROFIT ON ORDINARY ACTIVITIES, AFTER TAX		**337 749 013**	**228 744 210**
Extraordinary charges	38	(125 455 432)	(24 535 503)
Other taxes not shown under the preceding items		(7 286 010)	(9 760 043)
PROFIT FOR THE FINANCIAL YEAR		**205 007 571**	**194 448 664**
a) group share		*205 712 526*	*193 115 307*
b) minority interest share		*(704 955)*	*1 333 357*

The notes follow.

note 1 | General

1.1 Incorporation and management of the bank

Kredietbank S.A. Luxembourgeoise (hereinafter "the Bank") was incorporated in Luxembourg on 23 May 1949 as a public limited company (société anonyme).

The Bank belongs to the ALMANIJ Group, whose parent company is ALMANIJ N.V., a company governed by Belgian law, having its registered office at Schoenmarkt 33, B-2000 Antwerp.

The consolidated accounts of the ALMANIJ Group are available at the registered office of Almanij N.V.

The commercial policy and the valuation rules of the Bank are, unless subject to Luxembourg laws and regulations, determined and monitored by the Board of Directors.

1.2 Nature of activities

The corporate purpose of the Bank is to carry out all banking and credit activities.

In addition, the Bank is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main corporate purpose, either directly or through shareholding, or in any other manner, these provisions to be understood in the widest manner possible.

The Bank may carry out any activity which contributes in any way whatsoever to the achievement of its corporate purpose.

As a member of the ALMANIJ Group, the Bank belongs to an international network of associated companies, subsidiaries, branches and representative offices present in the main industrialised countries and international financial centres.

1.3 Consolidated accounts

The financial year corresponds to the calendar year.

The Bank draws up its consolidated accounts in euros (EUR), which is the currency of its equity capital.

note 2 | Main accounting methods

The consolidated accounts of the Bank have been prepared in conformity with the law as well as with the accounting principles that are generally accepted in the banking sector in the Grand Duchy of Luxembourg.

The main accounting methods for the consolidated accounts correspond generally to those applied for the preparation of the company's annual accounts and are as follows:

In 2003 and 2004 the Group made certain changes to the accounting methods mentioned under 2.1 *Conversion of items in foreign currencies,* 2.4 *Standard provision for assets at risk* 2.5 *Fund for general banking risks,* 2.8 *Bonds and other fixed-income securities* and notes 19 *Special items with a reserve quota portion* and 39 *Association for the guarantee of deposits.*

These changes in the accounting or valuation methods were made in the framework of the gradual convergence with International Financial Reporting Standards (hereinafter IFRS).

2.1 Conversion of items in foreign currencies

The Bank maintains a multi-currency accounting system under which all transactions are registered in the original foreign currency on the day on which the contract is concluded.

In preparing the annual accounts, assets and liabilities in foreign currencies are converted into EUR at the exchange rate applicable on the date of the balance sheet; differences resulting from such conversions are recorded in the profit and loss account.

Since 2003 and within the framework of the introduction of the IFRS, income and expenses expressed in foreign currencies have been entered in their respective currencies and periodically converted at the average monthly rate. In previous years, the rates of exchange used where those applicable on the date of the conversion.

On each closing of the balance sheet the bank revalues the forward and spot positions resulting from outright forward contracts and from exchange swaps aiming at hedging.

In this case, all the latent results, including unrealised capital gains, of forward exchange transactions are entered in the profit and loss account.

Unhedged forward exchange transactions are individually valued on the basis of the exchange rate applicable at the date of the balance sheet. Capital gains are not taken into account while a provision is made for losses in the balance sheet as a liability under ***Provisions for liabilities and charges: other provisions.***

2.2 Financial instruments

Any commitments of the Bank resulting from financial instruments, such as interest rate swaps, forward rate agreements, financial futures and options are recorded at the date of the transaction in the off-balance sheet items.

When the balance sheet is drawn up, a provision is taken for unrealised capital losses recorded at the date of the individual valuation, at market rates, for transactions which have not yet been completed. This provision is booked as a liability under ***Provisions for liabilities and charges: other provisions.*** Unrealised capital gains are not taken into account.

2.3 Value adjustments and specific provisions for bad and irrecoverable debts

The bank's policy is to effect value adjustments and to constitute specific provisions in respect of bad and irrecoverable debts. They are determined with prudence by the Board of Directors.

The value adjustments are deducted from the corresponding assets items while the provisions relating to off-balance sheet items are booked as liabilities under ***Provisions for liabilities and charges: other provisions.***

2.4 Standard provision for assets at risk

Until 31 December 2003 in accordance with the provisions of Luxembourg tax legislation, the Bank's policy was to set up a standard provision for contingent liabilities as defined in the prudential regulations for the banking sector. The object of this provision was to cover against liabilities which are expected but not identified when the annual accounts are drawn up.

Within the framework of adapting to IFRS standards, this provision was completely written back in 2004.

2.5 Fund for general banking risks

In accordance with Article 63 of the law on the annual accounts of banks, the Bank may constitute a fund to cover general banking risks. This fund is recorded separately on the liabilities side of the balance sheet. Transfers into the fund for general banking risks are not tax deductible.

Within the framework of adapting to IFRS standards, this provision was completely written back in 2004 for KBL, BCL and Brown Shipley.

2.6 Bills

Treasury bills are recorded in the balance sheet at their acquisition cost, plus accrued interest not yet due, calculated on a discount basis.

2.7 Transferable securities

Securities are registered in the balance sheet at their acquisition cost. Where appropriate, the acquisition cost is increased by any accrued interest not yet due for securities issued on a discount basis.

The Bank values its portfolio on the basis of weighted average prices.

Market risk and debtor risk are taken into account, where relevant.

Value adjustments are deducted from the securities to which they relate. No account is taken of capital gains unless this affects the fixed-income securities in the trading book.

2.8 Bonds and other fixed-income securities

For the purposes of valuation, the portfolio of fixed-income securities is divided into three categories:

- securities included in the investment portfolio, to be used for the long-term requirements of the Bank,
- those included in the trading book, acquired with a view to selling them in the short term,
- those included in the investment portfolio, i.e. securities which do not fall into either of the two preceding categories.

The fixed income securities are valued as follows:

Fixed financial assets

Fixed financial assets are accounted for at the acquisition value in so far as they comply with the conditions of eligibility set by the legislation governing bank accounts and current banking regulations. Assets which do not meet these conditions are valued at “lower of cost or market”.

When the acquisition price of fixed-income securities considered as investments is greater than their redemption price, the difference may be directly taken into account in the profit and loss account through the item accruals and deferred income on the liabilities side of the balance sheet, up to a maximum not exceeding the lesser of the following two amounts: 10% of the profit for the year or 10% of the difference between interest receivable and similar income and interest payable and similar charges.

In most cases, the Bank has charged the depreciation to the income statement *pro rata temporis* via the accruals and deferred income on the liabilities side.

Where the acquisition price of fixed-income securities considered as financial assets is lower than the redemption value, the discount is taken into the income statement *pro rata temporis* via the prepayments and accrued income on the assets side.

Investment portfolio

Fixed-income securities maintained in the trading book and the investment portfolio are valued at “lower of cost or market". The premiums and, since 2004 in the framework of adopting IFRS, the discounts have been entered *pro rata temporis* in the profit and loss account under the prepayment and accruals account.

Trading book

Since 2003 and in the framework of the introduction of IFRS, fixed-income securities in the trading book have been valued “mark-to-market”.

2.9 Equities and other variable-yield securities

Shares and other variable-yield securities are valued at “lower of cost or market".

2.10 Participating interests and shares in associated undertakings

Participating interests and shares in associated undertakings are valued at “lower of cost or market".

2.11 Differences resulting from the first consolidation

The difference resulting from the first consolidation corresponds to the difference between the cost of the parent company’s holding in the consolidated subsidiaries and the share in the equity of these undertakings at the date of the acquisition of the holding.

Given that the Bank has adopted a strategy of long-term expansion based on a policy of significant acquisitions leading to the repetition of the positive differences resulting from the first consolidation, those differences resulting from the first consolidation are not entered as redeemable assets but are directly deducted from equity, pursuant to Article 100(2) of the law on the accounts of banks.

2.12 Beibehaltungsprinzip

The Bank’s policy is to maintain the value adjustments previously constituted on certain assets items, but which no longer correspond to a loss following an increase in the estimated value of assets concerned, pursuant to Articles 56(2)(f) and 58(2)(e) of the law on the annual accounts of banks.

2.13 Tangible assets

Tangible assets are booked at acquisition cost.

The value of tangible assets which have a limited time use is reduced by value adjustments calculated in such a manner as to depreciate the assets over the period of use, estimated from when they enter into service.

2.14 Special items with a reserve quota portion

Special items with a reserve quota portion include amounts likely to be exempt from tax. The exemption concerns, in particular, capital gains made pursuant to Articles 53, 54 and 54(a) of the law on income tax.

2.15 Taxes

Tax charges are assessed at the end of each fiscal year. The total balance of tax payable, after prepayments have been taken into account, is booked as a liability under ***Provisions for liabilities and charges: provisions for taxation.***

Since 2002, the Group has entered deferred tax credits and debits identified on the main timing differences between the assets and liabilities valued on the basis of fiscal and accounting regulations for consolidated companies. Deferred taxes on assets relating to deferrable fiscal losses are also taken into account, if their recoverability may be reasonably assured on the basis of budgetary provisions prudently made by the Bank.

Deferred taxes on liabilities are listed under the item ***Other liabilities*** while deferred taxes on assets come under the item ***Other assets***. The variation in deferred taxes on assets and liabilities from one period to another is entered in the consolidated profit and loss account under the item ***Tax on profit from ordinary activities.***

note 3 | Methods of consolidation

Only the banking and financial subsidiaries (including auxiliary banking companies) are consolidated.

The methods of consolidation used are the following:

- complete integration for companies in which the group holds at least 50 % of the capital either directly or indirectly,
- proportional integration for companies jointly controlled with a limited number of third parties,
- equity method, for companies in which the group holds between 20 and 50% of the capital either directly or indirectly.

note 4 | Scope of consolidation

Company	Country	Percentage held as at 31.12.2004	31.12.2003
Parent company			
Kredietbank S.A. Luxembourgeoise	Luxembourg		
Main subsidiaries:			
Brown, Shipley & Co. Ltd and subsidiaries	Great Britain	100.00	100.00
Theodoor Gilissen N.V. and subsidiaries	Netherlands	100.00	100.00
Banco Urquijo S.A. and subsidiaries	Spain	99.67	89.68
Puilaetco Private Bankers S.A. and subsidiaries	Belgium	100.00	-
Kredietbank Luxembourg Beteiligungs A.G.	Germany	100.00	100.00
Merck Finck & Co and subsidiaries	Germany	100.00	100.00
Kredietbank (Suisse) S.A. and subsidiaries	Switzerland	99.99	99.99
KB Luxembourg (Monaco) S.A.	Monaco	100.00	100.00
KBL France S.A. and subsidiaries	France	100.00	100.00
Fidef Ingénierie Patrimoniale S.A.	France	100.00	99.97
Fumagalli Soldan SIM S.p.A.	Italy	94.54	80.00
Banque Continentale du Luxembourg S.A.	Luxembourg	100.00	100.00
KBL Bank Ireland	Ireland	100.00	100.00
Kredietrust Luxembourg S.A. (KTL)	Luxembourg	100.00	100.00
KB Lux Immo S.A. and subsidiaries	Luxembourg	99.83	99.83
Westhouse Securities LLP	Great Britain	65.00	-
Financière et Immobilière S.A.	Luxembourg	100.00	100.00
Kredietbank Informatique G.I.E.	Luxembourg	100.00	100.00
Gecalux SARL	Luxembourg	50.00	50.00
EFA Partners	Luxembourg	52.70	-
European Fund Administration	Luxembourg	52.70	39.00

The companies above are consolidated according to the global integration method with the exception of Gecalux SARL which is consolidated according to the method of proportional integration and EFA Partners and European Fund Administration consolidated according to the equity method.

Puilaetco Private Bankers S.A. has been consolidated since 1 July 2004.

The annual and/or consolidated accounts of the above companies are all audited and approved by auditors.

The financial statements taken into consideration in the consolidated accounts are those as at 31 December 2004

The main movements affecting the scope of consolidation during the year under consideration are as follows:

In Luxembourg

In December 2004 Teaside Business S.A., held by KB Lux Immo S.A. was wound up.

In Spain

In April 2004, the March Group exercised its put option and sold KBL its 9.98% stake it held in Banco Urquijo through the company Deya.

In December 2004, Banco Urquijo absorbed Urquijo Bolsa y Valores S.V.B. S.A.

In France

KBL France continued the process of simplifying its structure by winding up certain subsidiaries.

In the United Kingdom

Like KBL France, Brown, Shipley & Co. Ltd continued the process of simplifying its structure by winding up certain subsidiaries.

In Switzerland

In May 2004, the minority shareholders of Jacxsens & Partner, a company held by Kredietbank (Suisse) S.A., exercised their put option and sold their shares to Kredietbank (Suisse) S.A., which then sold the company in September 2004.

In Italy

In November 2004, KBL subscribed to a capital increase at Fumagalli Soldan SIM SpA, bringing its stake to 95.54%.

2004 was also marked by the following acquisitions:

In the United Kingdom

In December 2003, Brown, Shipley & Co Ltd sold its Corporate Finance activity to Westhouse Securities LLP, a new company created in December 2003. In February 2004, KBL took a 65% stake in this newly created company.

In Luxembourg

In March 2004, KBL acquired a 25.7% stake in EFA Partners.

Following this acquisition KBL has a direct holding of 39% in European Fund Administration and a holding of 13.7% through EFA Partners.

In Belgium

In June 2004, KBL acquired Puilaetco Private Bankers S.A., a group with its parent company in Brussels.

The Bank has other holdings in excess of 20% in the capital of certain companies. These companies have, however, not been consolidated, either because they are not large enough or because their type of activity is such that the consolidation of their financial situation would be inappropriate or likely to lead to misinterpretation (see note 34).

Both these holdings and those inferior to 20% are included in the consolidated accounts on the asset side of the balance sheet at their acquisition price from which are deducted any value adjustments for any depreciation resulting from their valuation.

note 5 | Adjustments and eliminations

The necessary adjustments and eliminations have been made to the accounts of the consolidated undertakings to:

- present the accounts in a uniform manner;
- eliminate reciprocal balances;
- eliminate income and costs resulting from intra-group transactions in so far as they are identifiable and have a significant effect on the consolidated accounts.

note 6 | Conversion principles used for the consolidation – cumulative conversion adjustment

The Bank has adopted the following method for converting the annual accounts of the consolidated companies drawn up in foreign currencies into EUR:

- the assets and liabilities are converted at the exchange rates applicable on the date of the balance sheet;
- the profit and loss accounts are converted at the average end-of-month exchange rates;
- the resulting cumulative conversion adjustment is not included in the calculation of profit for the financial year but forms an integral part of the 'Non-payable'.

note 7 | Assets and liabilities in foreign currencies

As at 31 December 2004, the total amount of assets denominated in foreign currencies (apart from EUR) converted into EUR was EUR 13 090 million (2003: EUR 10 852 million); the total amount of liabilities (apart from EUR) was EUR 8 018 million (2003: EUR 8 536 million).

note 8 | Breakdown of assets and liabilities by residual value

The asset and liability items are presented in the following tables on the basis of whether they belong to the trading book or not, pursuant to the regulations in force on the definition of equity ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector and as defined below:

The trading book comprises:

- own positions, either long or short, in:
  - money market instruments,

  - fixed-income securities,
  - variable-yield securities including shares in undertakings for collective investment,
  - raw materials,
  - derivatives,

when they are taken or held with the intention of:

  - balancing them in the short term, or
  - profiting in the short term from real and/or discounted spreads between their purchase and sale prices, or
  - profiting in the short term from other variations in price or interest rates,

- positions resulting from simultaneous purchases and sales carried out on own account,
- positions linked to underwriting transferable securities or money market instruments on a firm commitment,
- any other position taken or held to cover other positions in the trading book.

Non-Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2004.

EUR million	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years or indefinite period	Total 2004	Total 2003
Assets						
Cash, balances with central banks and post office banks	238	-	-	-	238	776
Treasury bills and other bills eligible for refinancing with the Central Bank	1	3 893	2 009	-	5 903	6 543
Loans and advances to credit institutions	4 386	501	73	-	4 960	6 599
payable on demand	*1 454*	-	-	-	*1 454*	*1 580*
with agreed maturity or periods of notice	*2 931*	*501*	*73*	-	*3 505*	*5 019*
Loans and advances to customers	1 299	887	519	664	3 369	4 050
Bonds and other fixed-income securities	889	1 379	3 702	1 095	7 064	7 187
public issuers	*687*	*937*	*2 206*	*481*	*4 312*	*4 019*
other issuers	*201*	*442*	*1 495*	*613*	*2 752*	*3 168*
Equities and other variable-yield securities	-	-	-	171	171	171
Liabilities						
Amounts owed to credit institutions	10 328	1 423	238	3	11 992	12 058
payable on demand	*928*	-	-	-	*928*	*612*
with agreed maturity or periods of notice	*9 400*	*1 423*	*238*	*3*	*11 064*	*11 446*
Amounts owed to customers	10 807	2 109	62	8	12 986	14 042
savings deposits	*799*	-	-	*6*	*805*	*866*
others repayable on demand	*4 772*	-	-	-	*4 772*	*3 947*
with agreed maturity dates or periods of notice	*5 236*	*2 109*	*62*	*2*	*7 409*	*9 229*
Debts evidenced by certificates	23	8	116	1	149	373

The amounts are given net of standard provisions.
The additions are based on the exact amounts and not amounts rounded up.
The same applies to the tables following.

Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2004.

EUR million	Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years or indeterminate		Total 2004		Total 2003	
	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year
Assets												
Treasury bills and other bills eligible for refinancing with the Central Bank	28	14	71	80	1	26	-	-	101	120	103	154
Loans and advances to credit institutions (*)	6 627	7 944	329	120	-	-	-	-	6 957	8 064	4 607	2 663
Loans and advances to customers (*)	1 135	1 086	15	3	1	2	-	-	1 151	1 091	997	777
Bonds and other fixed-income securities	86	59	54	62	129	73	83	31	353	225	151	162
Equities and other variable-yield securities	-	-	-	-	-	-	36	85	36	85	111	114
Liabilities												
Amounts owed to credit institutions (*)	1 147	777	-	1	-	-	-	3	1 147	781	640	623
Amounts owed to customers (*)	2 312	1 908	-	1	-	-	-	2	2 312	1 910	1 884	1 721

The fair value of equities in the trading book at the end of the financial year are not significantly different (variation < 1%) from the net accounting value.

(*) The loans and advances correspond to loan transactions and securities lending as well as repo and reverse repo transactions.

note 9 | Transferable securities

Securities entered under the items ***Treasury bills and other bills eligible for refinancing with the Central Bank, Bonds and other fixed-income securities, Equities and other variable-yield securities, Participating interests*** and ***Shares in associated undertakings*** were valued as follows as at 31 December 2004 (2003):

EUR million	LISTED SECURITIES	NON-LISTED SECURITIES	TOTAL
1. Treasury bills, bonds and other fixed-income securities,	13 036 (13 636)	385 (349)	13 421 (13 985)
2. Equities and other variable-yield securities	127 (219)	80 (64)	207 (282)
3. Participating interests	21 (39)	31 (24)	52 (63)
4. Shares in associated undertakings	23 (23)	20 (19)	43 (42)

The amount of value adjustments on transferable securities held under the *Beibehaltungsprinzip* (see note 2.12) as financial assets and current assets respectively amounted as at 31 December 2004 to EUR 10 million (2003: EUR 5 million) and to EUR 40 million (2003: EUR 18 million).

note 10 | Treasury bills, bonds and other fixed-income securities

As at 31 December 2004, securities entered under the item ***Treasury bills and other bills eligible for refinancing with the Central Bank*** and ***Bonds and other fixed-income securities*** could be broken down as follows:

EUR million	2004	2003
Fixed financial assets	6 499	7 147
Other fixed-income securities	6 922	6 838
	13 421	**13 985**

Fixed financial assets consist of securities which, pursuant to Article 56 of the law on the annual accounts of banks, are intended to meet the long-term requirements of the Bank (see note 2.8).

The amount of fixed-income securities entered under the item maturing in 2005 is EUR 6 287 million (2003: EUR 6 599 million for those maturing in 2004).

The value of premiums on bonds and other fixed-yield transferable securities entered directly in the profit and loss account during the financial year was EUR 0.03 million as at 31 December 2004 (2003: EUR 0.02 million).

Cumulative depreciation since the acquisition date of pro rata premiums on bonds and other fixed-income securities amounted as at 31 December 2004 to EUR 56 million (2003: EUR 112 million) of

EUR 37 million (2003: EUR 94 million) relating to transferable fixed-income securities having the character of investments.

The pro rata amount of discounts on bonds and other fixed-income securities considered as investments increased from EUR 13 million as at 31 December 2003 to EUR 24 million as at 31 December 2004.

Within the framework of adapting to IFRS, the Bank has, since 2004, been entering discounts related to investment securities portfolios in the profit and loss account under ***Prepayments*** on a pro rata basis. In previous years these discounts were entered directly in the profit and loss account.

note 11 Participating interests and shares in associated undertakings in other credit institutions

EUR million	2004	2003
- Participating interests in credit institutions	4	21
- Shares in associated undertakings which are credit institutions	-	-

note 12 | Changes in fixed assets

EUR million	ACQUISITION VALUE AS AT 01.01.2004	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2004	CUMULATIVE VALUE ADJ. AS AT 31.12.2004	NET VALUE AS AT 31.12.2004
1. Fixed financial assets	7 345	18	2 749	3 447	6 665	95	6 571
- *participating interests*	*97*	*(1)*	*9*	*20*	*86*	*34*	*52*
- *shares in associated undertakings held as financial assets*	*21*	-	*8*	*6*	*22*	*2*	*20*
- *treasury bills, bonds and other fixed-income securities held as financial assets*	*7 227*	*19*	*2 732*	*3 421*	*6 557*	*59*	*6 499*
2. Tangible assets	538	-	44	52	531	202	329
- *land and buildings*	*334*	-	*10*	*9*	*336*	*68*	*268*
- *other tangible assets*	*204*	-	*34*	*44*	*195*	*134*	*61*
3. Intangible assets	144	1	29	46	130	117	12
- *start-up costs*	*1*	-	-	-	*1*	*1*	-
- *goodwill acquired against payment*	*111*	*1*	*6*	*45*	*74*	*74*	-
- *software and other intangibles*	*32*	-	*23*	*1*	*55*	*42*	*12*

note 13 | Tangible assets

Land and buildings used by the Group for its own purposes appear under the items "Tangible assets" and amount to EUR 248 million (2003: EUR 242 million).

note 14 | Other assets

The item ***Other assets*** covers miscellaneous short-term receivables such as dividends and coupons remitted by customers to the Bank for collection and which have already been paid by the Bank.

As at 31 December 2004, this item also included deferred tax assets, for a total amount EUR 71 million (2003: EUR 78 million).

note 15 | Transactions with group undertakings and subordinated claims

As at 31 December 2004 (2003), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

EUR million	VALUE OF LOANS AND ADVANCES TO ASSOCIATED UNDERTAKINGS	VALUE OF LOANS AND ADVANCES TO UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Assets		
1.1 Loans and advances to	565	12
credit institutions	(383)	(195)
1.2 Loans and advances	38	1
to customers	(53)	(1)
1.3 Bonds and other fixed-	12	-
income securities	(14)	(-)

EUR million	VALUE OF DEBTS WITH ASSOCIATED UNDERTAKINGS	VALUE OF DEBTS WITH UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
2. Liabilities		
2.1 Amounts owed	106	1
to credit institutions:	(389)	(36)
2.2 Amounts owed	270	-
to customers	(142)	(2)

Total of subordinated claims are as follows:

EUR million	TOTAL OF SUBORDINATED CLAIMS	OF WHICH: AGAINST ASSOCIATED UNDERTAKINGS	OF WHICH: AGAINST UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
Bonds and other	23	-	-
fixed-income securities	(21)	(-)	(-)

Subordinated claims are assets with rights which can only be exercised once the claims of other creditors have been settled, in the event of liquidation or bankruptcy.

note 16 | Debts evidenced by certificates

As at 31 December 2004, the amount of cash certificates and bonds in circulation maturing in 2005 was EUR 20 million (2003: 245 million for those maturing in 2004).

note 17 | Other liabilities

The item ***Other liabilities*** mainly covers miscellaneous amounts payable in the short term such as coupons and securities to be redeemed as paying agent.

note 18 | Subordinated liabilities

The following subordinated loans were outstanding as at 31 December 2004:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	POSITION AS AT 31.12.2004	POSITION AS AT 31.12.2003
Subordinated debenture loan	7.875 %	19/07/94	19/07/04	-	24.8
Subordinated debenture loan	8.625 %	14/10/94	14/10/04	-	24.8
Subordinated debenture loan	7.375 %	25/10/95	25/10/05	74.4	74.4
Subordinated debenture loan	7.125 %	17/11/95	17/11/05	49.6	49.6
Subordinated debenture loan	4.500 %	17/04/98	17/04/08	49.6	49.6
Subordinated debenture loan	5.000 %	26/06/98	26/06/08	49.6	49.6
Subordinated debenture loan	4.625 %	28/10/98	28/10/08	49.6	49.6
Subordinated debenture loan	5.250 %	25/11/98	25/11/08	53.8	53.7
Subordinated debenture loan	6.375 %	31/01/01	31/01/11	400.0	400.0
Subordinated debenture loan	6.375 %	23/02/01	23/02/16	200.0	200.0
				926.4	976.0

All the loans are denominated in EUR except for the one issued on 25 November 1998 for an amount of DKK 400 000 000.

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2004, EUR 43 million had been issued (2003: EUR 35 million).

Subordinated loans and cash certificates rank immediately after all other unsubordinated liabilities and commitments of the Bank towards third parties.

Interest payable by the Bank for subordinated liabilities during the financial year amounts to EUR 63 million (2003: EUR 65 million).

note 19 | Special items with a reserve quota portion

The amount booked under the item ***Special items with a reserve quota portion*** relates to capital gains on reinvestment as defined in Article 54 and 54(a) of the law on income tax.

Pursuant to these Articles, capital gains resulting from the transfer or the conversion of assets may be exempted from tax, if certain conditions are met, when such capital gains are transferred to other assets acquired or constituted by the Bank.

Capital gains from the transfer of assets mainly result from the sale of buildings and disposal of participating interests and various securities.

Within the framework of adapting to the IFRS standards the amount booked under ***Special items with a reserve quota portion*** invested in buildings and in the holding in Banque Continentale du Luxembourg S.A. (following its planned absorption by KBL) was written back during 2004.

note 20 | Hybrid capital instruments

In 2003, the Bank issued a capital hybrid instrument for JPY 20 billion. This loan can be assimilated in Tier 1.

The contract governing this loan does not give compulsory maturity dates and does not contain stipulations pursuant to which an early redemption could be required by an investor.

This loan is subordinated to all other debts which the Bank has to third parties. It is not convertible. Expenses paid by the Bank for this loan during the year amounted to JPY 562 million (EUR 4 million) (2003: JPY 314 million, EUR 2.3 million).

note 21 | Capital

The subscribed and paid-up capital was EUR 189 million represented by 18 353 387 ordinary shares without par value and by 1 975 320 non-voting preference shares without par value. As at 31 December 2004, the Bank held 21 571 (2003: 60) of its own shares.

note 22 | Development of reserves and results brought forward

EUR million	Reserves	Losses carried forward
1. Balance as at 1 January 2004	196.7	0.7
2. Profit for the financial year ended 31 December 2003		193.1
3. Allocation of profit:		
Transfer to reserves	73.1	(73.1)
Dividends		(118.5)
Directors' fees		(1.6)
4. Other movements	(128.9)	
5. Balance as at 31 December 2004	140.9	0.6

Pursuant to the Luxembourg law on public limited companies (sociétés anonymes) a sum equal to not less than 5% of the net profit is allocated each year to a reserve account until such time as that reserve is equal to 10% of the share capital. The allocation is made during the following financial year. The legal reserve cannot be distributed.

The other movements are mainly explained by the variations in differences resulting from the first consolidation noted during the financial year 2004. The differences resulting from the first consolidation were completely deducted from the reserves (see note 2.11).

note 23 | Assets pledged as collateral security

As at 31 December 2004 (2003), the total amount of assets pledged by the Bank as collateral security for its own commitments is as follows:

TOTAL ASSETS PLEDGED AS COLLATERAL SECURITY	AMOUNT EUR million	COMMENTS
Treasury and other bills	589 (2 792)	Assets pledged as collateral security for its activities with the Luxembourg Central Bank
Assets pledged as collateral security	6 152 (3 213)	Assets pledged for 'repo-reverse repo' activity
Bonds and other fixed-income securities, other assets	302 (286)	Assets pledged as collateral security for the Bank's activities with central banks and clearing houses
Bonds and other fixed-income securities	106 (27)	Assets pledged as collateral security for securities lending or credit lines received
Other assets	2 (1)	Assets pledged as collateral security for transactions on a derivatives market

note 24 | Contingent liabilities

The contingent liabilities of the Bank include in particular the following items as at 31 December 2004:

EUR million	TOTAL CONTINGENT LIABILITIES		OF WHICH CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS	
	2004	2003	2004	2003
Guarantees and other direct credit substitutes	467	434	36	31
Counter-guarantees	216	263	4	1
Documentary credits	21	21	-	-
Other contingent liabilities	11	19	-	-
	715	738	40	32

Guarantees and other direct credit substitutes represent real and personal security made on behalf of associated undertakings and third parties.

note 25 | Commitments

The main items booked under "Commitments" as at 31 December 2004 were as follows:

EUR million	TOTAL COMMITMENTS		OF WHICH COMMITMENTS TO ASSOCIATED UNDERTAKINGS	
	2004	2003	2004	2003
Forward purchase of assets	5	4	-	-
Amounts to be paid up for securities and participating interests	27	29	-	-
Unused confirmed credits	2 639	2 379	28	71
Settlement of spot transactions	252	411	15	7
Other	69	-	-	-
	2 993	2 822	43	79

The Bank has contracted certain other commitments which are not recorded in the balance sheet or in the off-balance sheet items but should be mentioned in order to obtain a clear picture of its financial situation.

Thus the Bank is a member of the Association for the Guarantee of Deposits, Luxembourg, referred to in note 39 below.

The Bank is also a member of the clearing system of the Banking Association for the euro.

note 26 | Services

The group provides the following services to its customers:

- wealth management advice,
- securities custody and administration,
- rental of safes,
- fiduciary representative services,
- agent services,
- custodian for undertakings for collective investment.

note 27 | Breakdown of derivatives by category of instrument and residual maturity

The table below gives the breakdown of non-trading book derivatives as at 31 December 2004, (as defined in Note 8) by category of instrument and residual maturity.

The great majority of these operations aim at covering fluctuations in interest rates, exchange rates and market prices.

This table shows only operations to be delivered.

DERIVATIVES (non-trading book)	OTC						STOCK MARKET					
					2004	2003					2004	2003
notional value in EUR million	<=3 MONTHS	>3 MONTHS <=1 YEAR	>1 YEAR <=5 YEARS	>5 YEARS	TOTAL	TOTAL	<=3 MONTHS	>3 MONTHS <=1 YEAR	>1 YEAR <=5 YEARS	>5 YEARS	TOTAL	TOTAL
Categories of instruments												
Interest rate instruments												
Futures	5	24	68	-	97	1	8	-	-	-	8	-
Swaps	5 745	11 918	23 900	2 181	43 744	28 808	100	312	-	-	412	232
Options	-	240	216	5	461	859	-	-	-	-	-	-
					44 302	29 668					420	232
Gold/currency instruments												
Futures	698	513	2	-	1 213	1 190	-	-	-	-	-	105
Swaps	10 174	1 003	430	-	11 607	10 886	-	-	-	-	-	-
Options	146	56	-	-	202	135	-	-	-	-	-	5
					13 022	12 212					-	110
Equity instruments												
Futures	36	-	-	-	36	103	-	-	-	-	-	-
Swaps	-	5	-	-	5	-	-	-	-	-	-	-
Options	-	7	100	-	108	63	30	5	-	-	35	38
					148	166					35	38
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total					57 473	42 045					456	380

note 28 | Breakdown of balance sheet and off-balance sheet items by country group

The table below gives the breakdown of asset items by country group as at 31 December 2004.

ASSET ITEM EUR million (accounting value)	COUNTRY ZONE	2004	2003
Cash and loans and advances to credit institutions	European Union	11 242	11 467
	Other zone A countries	838	455
	Other	75	61
		12 155	11 983
Loans and advances to customers	European Union	4 276	4 744
	Other zone A countries	85	139
	Other	159	165
		4 520	5 047
Treasury bills and transferable securities, excluding participating interests and interests in associated undertakings	European Union	12 284	11 818
	Other zone A countries	1 113	2 209
	Supranational outstandings	37	44
	Other	193	196
		13 628	14 267

The table below gives the breakdown of liability items by country group as at 31 December 2004.

LIABILITY ITEM EUR million (accounting value)	COUNTRY ZONE	2004	2003
Amounts owed to credit institutions	European Union	10 639	9 908
	Other zone A countries	2 178	2 494
	Supranational outstandings	23	-
	Other	300	297
		13 139	12 699
Amounts owed to customers	European Union	14 114	14 479
	Other zone A countries	386	488
	Supranational outstandings	5	93
	Other	793	865
		15 298	15 926

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December.

OFF-BALANCE SHEET ITEM EUR million (accounting value)	COUNTRY ZONE	2004	2003
Contingent liabilities	European Union	672	689
	Other zone A countries	21	32
	Other	22	17
		715	738
Commitments: unused confirmed credits	European Union	2 592	2 305
	Other zone A countries	33	39
	Other	15	34
		2 639	2 379

note 29 | Breakdown of asset and off-balance sheet items by economic sector

The table below gives the breakdown of asset items by economic sector as at 31 December 2004.

ECONOMIC SECTORS EUR million (accounting value)	ASSET ITEM	2004	2003
Public sector	Debts	17	21
	Treasury bills and fixed-income securities	10 578	10 761
Public sector total		**10 596**	**10 782**
Banks			
Central banks	Debts	239	780
	Fixed-income securities	4	11
		243	**791**
Multilateral development banks	Fixed-income securities	37	**44**
Other banks	Debts	11 916	11 203
	Treasury bills and fixed-income securities	834	759
	Variable-yield securities (*)	5	18
		12 755	**11 980**
Banks total		**13 035**	**12 816**
Financial establishments			
UCI	Debts	110	159
	Fixed-income securities	40	25
	Variable-yield securities (*)	128	129
		277	**314**
Holdings	Debts	73	129
	Fixed-income securities	8	17
	Variable-yield securities (*)	3	1
		84	**148**
Other financial establishments	Debts	1 404	1 281
	Fixed-income securities	572	628
	Variable-yield securities (*)	34	11
		2 010	**1 920**
Financial establishments total		**2 371**	**2 381**
Other sectors	Debts	2 916	3 457
	Fixed-income securities	1 348	1 738
	Variable-yield securities (*)	39	123
Other sectors total		**4 302**	**5 318**
Total per asset element	Debts	16 675	17 030
	Treasury bills and fixed-income securities	13 421	13 985
	Variable-yield securities (*)	207	282
Overall total		**30 303**	**31 297**

(*): ex holdings and shares in associated undertakings

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December 2004.

ECONOMIC SECTORS EUR million	OFF-BALANCE-SHEET ITEM	2004	2003
Public sector	Contingent liabilities	-	-
	Unused confirmed credits	14	14
Public sector total		**14**	**14**
Banks			
Other credit institutions	Contingent liabilities	79	47
	Unused confirmed credits	932	945
Banks total		**1 011**	**992**
Financial establishments			
OPC	Contingent liabilities	-	-
	Unused confirmed credits	78	41
		78	**41**
Holdings	Contingent liabilities	-	4
	Unused confirmed credits	21	73
		21	**77**
Other financial establishments	Contingent liabilities	28	41
	Unused confirmed credits	17	33
		44	**74**
Financial establishments total		**144**	**192**
Other sectors	Contingent liabilities	608	646
	Unused confirmed credits	1 578	1 273
Other sectors total		**2 186**	**1 918**
Total per off-balance-sheet item	Contingent liabilities	715	738
	Unused confirmed credits	2 639	2 379
Overall total		**3 354**	**3 117**

note 30 | Exposure to credit, exchange and market risks

The capital adequacy requirements for covering credit, exchange and market risks are calculated pursuant to legislation laid down in CSSF Circular 2000/10 on the definition of capital adequacy ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector.

They amounted to an overall total of EUR 722 million as at 31 December 2004 (2003: EUR 852 million). On a consolidated basis, only 0.4% of these are attributable to the consolidated exchange risk and 5.2% to consolidated market risk.

The table below gives the breakdown of balance sheet and off-balance-sheet items by weighted risk category and also derivatives showing the credit risk exposure of the KBL group as at 31 December 2004 and 2003.

	2004		2003
WEIGHTING ATTRIBUTED TO THE COUNTERPARTY EUR million	CREDIT RISK BEFORE WEIGHTING	WEIGHTED RISK	WEIGHTED RISK
Balance sheet items	**24 274**	**7 028**	**8 720**
0%	10 634	-	-
10%	46	5	2
20%	7 605	1 521	1 862
50%	972	486	552
100%	5 016	5 016	6 304
Off-balance sheet items	**3 520**	**1 241**	**1 061**
0%	731	-	-
10%	893	89	92
20%	82	16	11
50%	1 356	678	493
100%	458	458	466
Derivatives		**250**	**238**
TOTAL		**8 519**	**10 019**

Derivatives are mainly initiated by Kredietbank S.A. Luxembourgeoise.

Exchange positions as at 31 December 2004 and 2003 were as follows (short positions are in brackets):

	2004		2003
CURRENCY	NET COUNTERVALUE POSITION, IN EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, IN EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, IN EUR MILLION
DKK	0.8		
GBP	23.0		
HUF	155.2		
PLN	0.2		
SEK	0.7		
SIT	0.1		
SKK	(0.2)		
European Union currencies (ex EMU)	179.8	2.9	0.5
ARS	(0.3)		
CAD	0.2		
JPY	0.2		
NOK	0.8		
NZD	0.1		
USD	11.5		
XAU	(5.9)		
Other currencies	0.2		
Currencies outside the European Union	6.8	-	11.2
Total		2.9	11.7

Most exchange positions are generated by Kredietbank S.A. Luxembourgeoise.

note 31 | Other operating income

The amounts recorded under this item represent revenues from the activities of the group but which are not related to the current financial year. They also cover capital gains on the sale of holdings, rent from buildings owned by the group and the recovery of tax provisions for previous years. Within the framework of adapting to the IFRS, in 2003 the group wrote back various provisions, including the whole of the AGDL provision (see note 39).

note 32 | Value adjustments on tangible and intangible assets

This item covers *inter alia* the accelerated depreciation of goodwill acquired against payment by subsidiaries.

note 33 | Other operating charges

The amounts under this item are essentially the allocations to the provision for various risks and charges.

note 34 | Non-consolidated companies

The following undertakings directly owned by the Bank were not included in the scope of consolidation either due to their negligible importance in the consolidated accounts or because of the nature of their activity:

NAME AND REGISTERED OFFICE	PERCENTAGE OF CAPITAL HELD	SHAREHOLDERS' EQUITY (EXCLUDING RESULTS)	RESULT	REFERENCE DATE
Asia Oceania Management S.A. - Luxembourg	100.00%	408 942 USD	1 884 USD	30.11.2003
Renelux S.A. – Luxembourg	100.00%	2 042 832 EUR	-	31.12.2004
Cogere S.A. – Luxembourg	50.00%	4 053 662 EUR	(*) 474 990 EUR	31.12.2004
Ceres S.A. – Luxembourg	100.00%	1 298 471 EUR	-	31.12.2004
TVM GmbH Munich – Germany	31.25%	317 619 EUR	20 580 EUR	31.12.2003

(*) Provisional figures

note 35 | Number of employees

The average number of persons employed by the companies consolidated by the Bank breaks down as follows:

	NUMBER 2004	NUMBER 2003
Senior management	203	215
Managerial staff	1 227	1 223
Clerical staff	2 417	2 393
Workers	10	11
	3 856	3 843

note 36 Remuneration, advances and commitments in respect of company directors and officers

POSITION AS AT 31.12.2004 EUR	REMUNERATION PAID IN 2004 IN ACCORDANCE WITH POSITION	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	6 581 415 (91)	6 463 455 (25)	4 690 727 (22)	846 918 (13)	354 212 (11)
Senior management	34 696 786 (192)	7 012 590 (67)	4 553 175 (65)	1 117 763 (45)	3 104 228 (166)

( ): number of persons concerned

POSITION AS AT 31.12.2003 EUR	REMUNERATION PAID IN 2003 IN ACCORDANCE WITH POSITION	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	7 208 106 (100)	8 455 281 (33)	5 681 651 (29)	826 960 (9)	646 704 (31)
Senior management	32 481 052 (207)	7 345 288 (73)	5 140 388 (73)	1 376 724 (47)	3 224 912 (173)

( ): number of persons concerned

note 37 Tax on profit from ordinary activities

As at 31 December 2004, the tax on profit from ordinary activities was made up as follows:

- current tax for an amount of EUR 36 million (2003: a charge of EUR 50 million);
- deferred tax (see Note 2.15) for an amount of EUR 7 million (2003: a charge of EUR 2 million);

note 38 Extraordinary charges

As part of its cost control policy, in 2004 the group decided to continue the steps taken in 2002 to encourage early retirement and the plans for restructuring in several subsidiaries. The estimated cost was fully provisioned under the item ***Exceptional expenses***.

note 39 Association for the guarantee of deposits

On 25 September 1989, all credit institutions in the banking sector in the Grand Duchy of Luxembourg came together to form a non-profit association under the name of *Association pour la Garantie des Dépôts, Luxembourg* (AGDL).

In accordance with the Law of 5 April 1993, as amended by the Laws of 11 June 1997 and of 27 July 2000, AGDL's sole object is to provide a system for the mutual guarantee of deposits of private customers of AGDL member banks (the "Guarantee"). All depositors who are private persons are eligible for this Guarantee, irrespective of their nationality or place of residence. The Guarantee also extends to small companies subject to the law of a Member State of the European Union, which, because of their size, are authorised, pursuant to Article 215 of the Law of 10 August 1915 on commercial companies, as amended, to draw up an abridged balance sheet.

In the case of the insolvency of a member establishment, the AGDL protects all cash depositors by guaranteeing the reimbursement of their deposits up to an amount of EUR 20 000.

In the same circumstances, the AGDL protects all investors by guaranteeing the reimbursement of their debts resulting from investments up to an amount of EUR 20 000.

For each member, the Guarantee is limited to a maximum amount of EUR 40 000 or its countervalue in foreign currency per customer, regardless of the number of accounts or deposits a customer may have with the same credit institution.

The amount of the guarantee is an absolute limit and cannot be increased to take into account interest, fees or any other amounts.

In 2003 and within the framework of adapting to the IFRS, the Group wrote back the AGDL provision set up in previous years (see note 31).

note 40 | Disputes

In the course of 2000, several directors, managers and members of staff of the bank as well as some former directors, managers and members of staff were charged by a Belgian examining magistrate with offences relating to a tax suit as a result of their professional activities at the Bank.

The outcome of the proceedings is not certain and it is impossible to foresee the possible impact on the financial statements of the bank.

After analysing the situation and all the reserves already held in line with the Bank's traditionally prudent approach to risk management, it is not, at this moment, deemed necessary to constitute a provision.

note 41 | Post-report events

On 23 December 2004, Almanij S.A. and KBC Bank and Insurance Holding Company N.V. issued a joint press release announcing that their respective Boards of Directors had decided to submit a motion to the Extraordinary General Meeting of their respective shareholders on 2 March 2005 to simplify their structure through a merger by acquisition with Almanij being acquired by KBC Bank and Insurance Holding Company N.V.

Following this announcement Almanij launched a public cash tender offer for the shares of the Bank on 31 January 2005. This successful offer was finalised on 14 February 2005. Pursuant to the intentions expressed in the context of this public cash tender offer a request for the suspension of the listing of the Bank's shares on the Luxembourg Stock Exchange will be made.

Furthermore, on 1 January 2005 the Bank merged with its Luxembourg subsidiary Banque Continentale du Luxembourg S.A. This company's activities have been completely taken over by the Bank

NON-CONSOLIDATED ACCOUNTS

NON-CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2004	2003
Cash, balances with central banks and post office banks	4, 24, 25	164 206 553	697 578 217
Treasury bills and other bills eligible for refinancing with the Central Bank	4, 5, 6, 8, 19 24, 25	5 888 699 212	6 531 382 423
treasury bills and similar		*5 888 699 212*	*6 531 382 423*
Loans and advances to credit institutions	4, 11, 24, 25	11 008 470 283	10 496 156 632
a) repayable on demand		*1 243 756 238*	*1 258 596 806*
b) other loans and advances		*9 764 714 045*	*9 237 559 826*
Loans and advances to customers	4, 11, 24, 25, 31	1 879 892 915	1 876 934 030
Bonds and other fixed-income securities	4, 5, 6, 8, 11 19, 24, 25	5 203 079 834	4 752 298 056
a) public issuers		*4 020 880 373*	*3 754 224 839*
b) issued by other borrowers		*1 182 199 461*	*998 073 217*
Shares and other variable-yield securities	4, 5, 24, 25	146 244 677	139 468 458
Participating interests	5, 7, 8, 29	34 630 450	43 987 938
Shares in associated undertakings	5, 7, 8, 29	1 278 913 179	1 071 567 647
Tangible assets	8, 9	105 512 750	100 056 915
Own shares	17	2 938 125	6 297
Other assets	10	44 133 999	54 067 867
Prepayments and accrued income	6	782 487 673	608 657 503
TOTAL ASSETS	**3**	**26 539 209 650**	**26 372 161 983**

The notes follow.

LIABILITIES	NOTES	2004	2003
Amounts owed to credit institutions	4, 11, 24	12 751 064 717	11 664 650 610
a) repayable on demand		*1 599 237 391*	*849 940 480*
b) with agreed maturity dates or periods of notice		*11 151 827 326*	*10 814 710 130*
Amounts owed to customers	4, 11, 24	10 249 339 712	10 800 729 314
a) savings deposits		*734 616 180*	*787 377 705*
b) other debts			
ba) repayable on demand		*1 850 574 774*	*1 880 585 672*
bb) with agreed maturity dates or periods of notice		*7 664 148 758*	*8 132 765 937*
Debts evidenced by certificates	4, 12	147 925 150	372 253 530
Bonds and debentures in circulation		*147 925 150*	*372 253 530*
Other liabilities	13	184 367 907	192 221 502
Accruals and deferred income	6	500 937 981	577 054 079
Provisions for liabilities and charges		198 153 343	153 777 347
a) provisions for taxes		*28 355 729*	*57 959 358*
b) other provisions	*32, 34*	*169 797 614*	*95 817 989*
Subordinated liabilities	14	969 778 107	1 011 426 379
Special items with a reserve quota	15	14 873 365	21 778 932
Fund for general banking risks	2.5	-	118 668 802
Hybrid capital instruments	16	143 215 181	148 093 299
Subscribed capital	17, 18	188 987 524	188 987 524
Share premium account	18	354 569 112	354 569 112
Reserves	18	647 211 850	587 281 349
Profit brought forward	18	552 349	666 054
Profit for the financial year	18	188 233 352	180 004 150
TOTAL LIABILITIES	**3**	**26 539 209 650**	**26 372 161 983**
OFF-BALANCE SHEET ITEMS			
Contingent liabilities	20, 24, 25, 31	584 681 259	471 961 109
Of which: guarantees and assets pledged as security		*574 728 039*	*462 992 024*
Commitments	21, 24, 25, 31	1 353 723 752	1 343 434 769
Fiduciary operations	22	757 042 819	1 014 108 825

The notes follow.

NON-CONSOLIDATED PROFIT AND LOSS ACCOUNT

in EUR, as at 31 December

	NOTES	2004	2003
Interest receivable and similar income		1 836 182 126	1 835 561 205
of which: That from fixed-interest securities		*494 701 956*	*581 879 132*
Interest payable and similar charges	14	(1 729 171 505)	(1 628 084 703)
Net interest	6	107 010 621	207 476 502
Interest from securities		48 196 414	101 294 913
a) income from shares and other variable-yield securities		*5 165 166*	*2 907 358*
b) income from participating interests		*1 183 340*	*1 462 814*
c) income from shares in associated undertakings		*41 847 908*	*96 924 741*
Commissions receivable		102 801 161	85 905 854
Commissions payable		(23 641 619)	(17 619 370)
Net commissions		79 159 542	68 286 484
Net profit on financial operations		59 076 099	(28 214 261)
Other operating income	28	53 830 925	62 009 771
General administrative expenses		(157 749 797)	(158 020 101)
a) staff costs		*(94 561 643)*	*(94 055 957)*
of which:- wages and salaries	*30, 31*	*(79 259 908)*	*(80 311 494)*
- social security costs		*(13 124 470)*	*(12 408 414)*
Of which: Social security costs relating to pensions		*(8 078 330)*	*(7 963 560)*
b) other administrative expenses		*(63 188 154)*	*(63 964 144)*
Value adjustments on tangible and intangible assets		(6 016 677)	(5 462 187)
Other operating charges	28	(12 514 034)	(2 647 329)
Value adjustments and re-adjustments for loans and provisions for contingent liabilities and commitments		27 081 776	7 311 094

The notes follow.

	NOTES	2004	2003
Value adjustments and re-adjustments for transferable securities held as financial assets, participating interests and shares in associated undertakings		11 999 208	(11 638 282)
Income from the writing back of "special items with a reserve quota portion"	15	6 934 736	372 004
Income from the writing back of amounts in the Fund for general banking risks	2.5	118 668 802	-
Tax on profit from ordinary activities		(24 500 000)	(39 000 000)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		**311 177 615**	**201 768 608**
Extraordinary expenses	32	(116 756 000)	(15 451 000)
Other taxes not shown under the preceding items		(6 188 263)	(6 313 458)
PROFIT FOR THE FINANCIAL YEAR	**18**	**188 233 352**	**180 004 150**

The notes follow.

note 1 | General

1.1 Incorporation and management of the Bank

Kredietbank S.A. Luxembourgeoise (hereinafter “the Bank”) was incorporated in Luxembourg on 23 May 1949 as a public limited company (société anonyme).

The Bank belongs to the ALMANIJ Group, whose parent company is ALMANIJ N.V., a company governed by Belgian law, having its registered office at Schoenmarkt 33, B-2000 Antwerp.

The consolidated accounts of the ALMANIJ Group are available at the registered office of Almanij N.V.

The commercial policy and the valuation rules of the Bank are, unless subject to Luxembourg laws and regulations, determined and monitored by the Board of Directors.

1.2 Nature of activities

The corporate purpose of the Bank is to carry out all banking and credit activities.

In addition, the Bank is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main corporate purpose, either directly or through shareholding, or in any other manner, these provisions to be understood in the widest manner possible.

The Bank may carry out any activity which contributes in any way whatsoever to the achievement of its corporate purpose.

As a member of the ALMANIJ Group, the Bank belongs to an international network of associated companies, subsidiaries, branches and representative offices present in the main industrialised countries and international financial centres.

1.3 Annual accounts

The financial year corresponds to the calendar year.

The Bank draws up its annual accounts in euros (EUR), which is the currency of its share capital.

note 2 | Main accounting methods

The annual accounts of the Bank have been prepared in conformity with the law as well as with the accounting principles that are generally accepted in the banking sector in the Grand Duchy of Luxembourg.

The main accounting rules that have been applied are the following:

In 2003 and 2004 the Group made certain changes to the accounting methods mentioned under 2.1 ***Conversion of items in foreign currencies***, 2.4. ***Standard provision for assets at risk***, 2.5

Fund for general banking risks, 2.8 ***Bonds and other fixed-income securities*** and notes 15 ***Special items with a reserve quota*** and 33 ***Association pour la Garantie des Dépôts***.

These changes in the accounting methods or valuation were made in the framework of the gradual convergence with International Financial Reporting Standards (hereinafter "IFRS").

2.1 Conversion of items in foreign currencies

The Bank maintains a multi-currency accounting system under which all transactions are registered in the original foreign currency on the day on which the contract is concluded.

In preparing the annual accounts, assets and liabilities in foreign currencies are converted into EUR at the exchange rate applicable on the date of the balance sheet; differences resulting from such conversions are recorded in the profit and loss account.

Since 2003 and within the framework of the introduction of the IFRS , income and expenses expressed in foreign currencies have been entered in their respective currencies and periodically converted at the average monthly rate. In previous years, the rates of exchange used where those applicable on the date of the conversion.

On each closing of the balance sheet the bank revalues the forward and spot positions resulting from outright forward contracts and from exchange swaps aiming at hedging.

In this case, all the latent results, including unrealised capital gains, of forward exchange transactions are entered in the profit and loss account.

Unhedged forward exchange transactions are individually valued on the basis of the exchange rate applicable at the date of the balance sheet. Capital gains are not taken into account while a provision is made for losses in the balance sheet as a liability under ***Provisions for liabilities and charges: other provisions.***

2.2 Financial instruments

Any commitments of the Bank resulting from financial instruments, such as interest rate swaps, forward rate agreements, financial futures and options are recorded at the date of the transaction in the off-balance sheet items.

When the balance sheet is drawn up, a provision is taken for unrealised capital losses recorded at the date of the individual valuation, at market rates, for transactions which have not yet been completed. This provision is booked as a liability under ***Provisions for liabilities and charges: other provisions.*** Unrealised capital gains are not taken into account.

2.3 Value adjustments and specific provisions for bad and irrecoverable debts

The bank's policy is to effect value adjustments and to constitute specific provisions in respect of bad and irrecoverable debts. They are determined with prudence by the Board of Directors.

The value adjustments are deducted from the corresponding assets items while the provisions relating to off-balance sheet items are booked as liabilities under ***Provisions for liabilities and charges: other provisions.***

2.4 Standard provision for assets at risk

Until 31 December 2003, in accordance with the provisions of Luxembourg tax legislation, the Bank's policy was to set up a standard provision for contingent liabilities as defined in the prudential regulations for the banking sector. The object of this provision was to cover against liabilities which are expected but not identified when the annual accounts are drawn up.

Within the framework of adapting to IFRS, this provision was completely written back in 2004.

2.5 Fund for general banking risks

In accordance with Article 63 of the law on the annual accounts of banks, the Bank may constitute a fund to cover general banking risks. This fund is recorded separately on the liabilities side of the balance sheet. Transfers into the fund for general banking risks are not tax deductible.

Within the framework of adapting to IFRS, this provision was completely written back in 2004.

2.6 Bills

Treasury bills are recorded in the balance sheet at their acquisition cost, plus accrued interest not yet due, calculated on a discount basis.

2.7 Transferable securities

Securities are registered in the balance sheet at their acquisition cost. Where appropriate, the acquisition cost is increased by any accrued interest not yet due for securities issued on a discount basis.

The Bank values its portfolio on the basis of weighted average prices.

Market risk and debtor risk are taken into account, where relevant.

Value adjustments are deducted from the securities to which they relate. No account is taken of capital gains unless this affects the fixed-income securities in the trading book.

2.8 Bonds and other fixed-income securities

For the purposes of valuation, the portfolio of fixed-income securities is divided into three categories:

- securities included in the financial assets portfolio, to be used for the long-term requirements of the Bank,
- those included in the trading book, acquired with a view to selling them in the short term,
- those included in the investment portfolio, i.e. securities which do not fall into either of the two preceding categories.

The fixed income securities are valued as follows:

Fixed financial assets

Fixed financial assets are accounted for at the acquisition value in so far as they comply with the conditions of eligibility set by the legislation governing bank accounts and current banking regulations. Assets which do not meet these conditions are valued at "lower of cost or market”.

When the acquisition price of fixed-income securities considered as financial assets is greater than their redemption price, the Bank charges the depreciation of the premium *pro rata temporis* to the profit and loss account via accruals and deferred income on the liabilities’ side.

When the acquisition price of fixed-income securities, considered as financial assets is lower than their redemption value, the discount is charged *pro rata temporis* to the profit and loss account via prepayments and accrued income on the assets side.

Investment portfolio

Fixed-income securities held in the trading book and the investment portfolio are valued at "lower of cost or market". The premiums and, since 2004 in the framework of adopting IFRS, the discounts have been entered *pro rata temporis* in the accounts under the prepayment and accruals account.

Trading book

Since 2003 and in the framework of the introduction of IFRS, fixed-income securities in the trading book have been valued “mark-to-market”.

2.9 Equities and other variable-yield securities

Shares and other variable-yield securities are valued at "lower of cost or market".

2.10 Participating interests and shares in associated undertakings

Participating interests and shares in associated undertakings are valued at "lower of cost or market".

2.11 Beibehaltungsprinzip

The Bank's policy is to maintain the value adjustments previously constituted on certain assets items, but which no longer correspond to a loss following an increase in the estimated value of assets concerned, pursuant to Articles 56(2)(f) and 58(2)(e) of the law on the annual accounts of banks.

2.12 Tangible assets

Tangible assets are booked at acquisition cost.

The value of tangible assets which have a limited time use is reduced by value adjustments calculated in such a manner as to depreciate the assets over the period of use, estimated from when they enter into service.

2.13 Special items with a reserve quota portion

Special items with a reserve quota portion include amounts likely to be exempt from tax. The exemption concerns, in particular, capital gains made pursuant to Articles 53, 54 and 54(a) of the law on income tax.

2.14 Taxes

Tax charges are assessed at the end of each fiscal year. The total balance of tax payable, after prepayments have been taken into account, is booked as a liability under ***Provisions for liabilities and charges: provisions for taxation.***

Further, pursuant to Article 164(a) of the Income Tax Law (LIR: *loi sur l'mpôt sur le revenu*), the Bank has obtained from the tax authorities the agreement to carry out the fiscal integration of certain subsidiaries so that their respective fiscal results are brought together with those of Kredietbank S.A. Luxembourgeoise (fiscal integration system). Charges for the communal trade tax and corporation income tax calculated at the level of the total fiscal integration are divided between the different companies which have been fiscally integrated *pro rata* to their pre-tax figures.

The subsidiaries included in this fiscal integration are:

- Banque Continentale du Luxembourg S.A. (since 1999),
- KBL Founder S.A. (since 1999, liquidated in 2003),
- Kredietrust Luxembourg S.A. (since 2002),
- Financière et Immobilière S.A. (since 2002),
- KBL Ré S.A. (since 2002, liquidated in 2003),

- Renelux S.A. (since 2002),
- Centre Europe S.A. (since 2003),
- KB Lux Immo S.A. (since 2003).

note 3 | Assets and liabilities in foreign currencies

As at 31 December 2004, the total amount of assets denominated in foreign currencies (apart from EUR), converted into EUR was EUR 10 727 million (2003: EUR 8 300 million); the total amount of liabilities (apart from EUR) was EUR 5 515 million (2003: EUR 5 880 million).

note 4 | Breakdown of assets and liabilities by residual value

The asset and liability items are presented in the following tables on the basis of whether they belong to the trading book or not, pursuant to the regulations in force on the definition of equity ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector and as defined below:

The trading book comprises:

- own positions, either long or short, in:
    - money market instruments,
    - fixed-income securities,
    - variable-yield securities including shares in undertakings for collective investment,
    - raw materials,
    - derivatives,

  when they are taken or held with the intention of:
    - balancing them in the short term, or
    - profiting in the short term from real and/or discounted spreads between their purchase and sale prices, or
    - profiting in the short term from other variations in price or interest rates,
- positions resulting from simultaneous purchases and sales carried out on own account,
- positions linked to underwriting transferable securities or money market instruments on a firm commitment,
- any other position taken or held to cover other positions in the trading book.

Non-Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2004.

EUR million	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS OR INDETERMINATE	TOTAL 2004	TOTAL 2003
Assets						
Cash, balances with central banks and post office banks	164	-	-	-	164	698
Treasury bills and other bills eligible for refinancing with the Central Bank	-	3 887	2 002	-	5 889	6 531
Loans and advances to credit institutions	4 436	637	62	86	5 221	7 195
payable on demand	*1 248*	-	-	-	*1 248*	*1 259*
with agreed maturity or periods of notice	*3 188*	*637*	*62*	*86*	*3 973*	*5 936*
Loans and advances to customers	497	15	130	151	794	913
Bonds and other fixed-income securities	678	846	2 428	553	4 505	4 656
public issuers	*635*	*757*	*1 986*	*439*	*3 817*	*3 716*
other issuers	*43*	*89*	*442*	*114*	*688*	*940*
Equities and other variable-yield securities	-	-	-	136	136	133
Liabilities						
Amounts owed to credit institutions	10 654	1 626			12 280	11 618
payable on demand	*1 599*	-	-	-	*1 599*	*850*
with agreed maturity or periods of notice	*9 055*	*1 626*	-	-	*10 681*	*10 768*
Amounts owed to customers	6 735	1 999	2	1	8 737	9 761
savings deposits	*734*	-	-	-	*734*	*787*
others repayable on demand	*1 850*	-	-	-	*1 850*	*1 881*
with agreed maturity dates or periods of notice	*4 151*	*1 999*	*2*	*1*	*6 153*	*7 093*
Debts evidenced by certificates	23	8	116	1	148	372

The amounts are given net of standard provisions.
The additions are based on the exact amounts and not amounts rounded up.
The same applies to the tables that follow.

Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2004.

EUR million	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year
	Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years or indeterminate		Total 2004		Total 2003	
Assets												
Loans and advances to credit institutions (*)	5 521	6 902	266	67	-	-	-	-	5 787	6 969	3 301	3 195
Loans and advances to customers (*)	1 086	1 070	-	-	-	-	-	-	1 086	1 070	964	776
Bonds and other fixed-income securities	93	58	57	31	223	110	325	158	698	357	96	133
Shares and other variable-yield securities	-	-	-	-	-	-	10	8	10	8	6	6
Liabilities												
Amounts owed to credit institutions (*)	471	151	-	-	-	-	-	-	471	151	47	19
Amounts owed to customers (*)	1 512	1 115	-	-	-	-	-	-	1 512	1 115	1 040	809

The fair value of equities in the trading book at the end of the financial year are not significantly different (variation < 1%) from the net accounting value.

(*) The loans and advances correspond to loan transactions and securities lending as well as repo and reverse repo transactions.

note 5 | Transferable securities

Securities entered under the items ***Treasury bills and other bills eligible for refinancing with the central bank, Bonds and other fixed-income securities, Equities and other variable-yield securities, Participating interests*** and ***Shares in associated undertakings*** were valued as follows as at 31 December 2004 (2003):

EUR million	Listed securities	Non-listed securities	Total
1. Treasury bills, bonds and other fixed-income securities	10 778	314	11 092
	(10 952)	(332)	(11 284)
2. Equities and other variable-yield securities	70	76	146
	(80)	(59)	(139)
3. Participating interests	4	31	35
	(21)	(23)	(44)
4. Shares in associated undertakings	22	1 257	1 279
	(28)	(1 044)	(1 072)

The amount of value adjustments on transferable securities held under the *Beibehaltungsprinzip* (see Note 2.11) as financial assets and current assets respectively amounted at 31 December 2004 to EUR 10 million (2003: EUR 5 million) and to EUR 40 million (2003: EUR 18 million).

note 6 Treasury bills, bonds and other fixed-income securities

As at 31 December 2004, securities entered under the item "Treasury bills and other bills eligible for refinancing with the Central Bank" and " Bonds and other fixed-income securities" could be broken down as follows:

EUR million	2004	2003
Fixed financial assets	4 261	4 843
Other fixed-income securities	6 831	6 441
	11 092	11 284

Fixed financial assets consist of securities which, pursuant to Article 56 of the law on the annual accounts of banks, are intended to meet the long-term requirements of the Bank (see note 2.8).

The amount of fixed-income securities entered under the item maturing in 2005 is EUR 5 446 million (2003: EUR 5 766 million for those maturing in 2004).

Cumulative depreciation since the acquisition date of *pro rata* premiums on bonds and other fixed-income securities amounted as at 31 December 2004 to EUR 47 million (2003: EUR 102 million) of which EUR 30 million (2003: EUR 85 million) relating to transferable fixed-income securities having the character of financial assets.

The pro rata amount of discounts on bonds and other fixed-income securities considered as investments increased from EUR 12.4 million as at 31 December 2003 to EUR 23 million as at 31 December 2004.

Within the framework of adapting to IFRS, the Bank has, since 2004, been entering discounts related to investment securities portfolios in the profit and loss account under ***Prepayments*** on a pro rata basis. In previous years these discounts were entered directly in the profit and loss account.

note 7 Participating interests and shares in associated undertakings

EUR million	2004	2003
- Participating interests in credit institutions	4	21
- Shares in associated undertakings which are credit institutions	1 115	927

note 8 Changes in fixed assets

EUR million	ACQUISITION VALUE AS AT 01.01.2004	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2004	CUMULATED VALUE ADJUST-MENTS AS AT 31.12.2004	NET VALUE AS AT 31.12.2004
1. Fixed financial assets	6 110	39	2 190	2 624	5 715	163	5 552
- *participating interests*	*70*	*-1*	*8*	*17*	*60*	*26*	*34*
- *shares in associated undertakings held as financial assets*	*1 120*	*1*	*215*	*-*	*1 336*	*79*	*1 257*
- *treasury bills, bonds and other fixed-income securities held as financial assets*	*4 920*	*39*	*1 967*	*2 607*	*4 319*	*58*	*4 261*
2. Tangible assets	134	-	15	6	143	37	106
- *land and buildings*	*117*	*-*	*9*	*2*	*124*	*32*	*93*
- *technical installations, machines and furniture*	*17*	*-*	*6*	*4*	*19*	*5*	*13*

note 9 | Tangible assets

Land and buildings used by the Bank for its own purposes appear under the items ***Tangible assets*** and amount to EUR 77 million (2003: EUR 66 million).

note 10 | Other assets

As at 31 December 2004, the item ***Other assets*** amounted to EUR 44 million (2003: EUR 54 million). This item covers miscellaneous short-term receivables such as dividends and coupons remitted by customers to the Bank for collection and which have already been paid by the Bank.

note 11 | Transactions with group undertakings and subordinated claims

As at 31 December 2004 (2003), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

EUR million	VALUE OF LOANS AND ADVANCES TO ASSOCIATED UNDERTAKINGS	VALUE OF LOANS AND ADVANCES TO COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Assets		
1.1 Loans and advances	2 234	12
to credit institutions	(2 843)	(195)
1.2 Loans and advances	113	1
to customers	(141)	(1)
1.3 Bonds and other	12	-
fixed-income securities	(14)	-

EUR million	VALUE OF DEBTS WITH ASSOCIATED UNDERTAKINGS	VALUE OF DEBTS WITH COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST
2. Liabilities		
2.1 Amounts owed	2 858	1
to credit institutions	(2 606)	(36)
2.2 Amounts owed	344	-
to customers	(194)	(2)

Total of subordinated claims are as follows:

EUR million	TOTAL OF SUBORDINATED CLAIMS	OF WHICH: AGAINST ASSOCIATED UNDERTAKINGS	OF WHICH: AGAINST UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Loans and advances	109	109	-
to credit institutions	(103)	(103)	-
2. Bonds and other	23	1	-
fixed-income securities	(20)	(1)	-

Subordinated claims are assets with rights which can only be exercised once the claims of other creditors have been settled, in the event of liquidation or bankruptcy.

note 12 Debts evidenced by certificates

As at 31 December 2004, the amount of cash certificates and bonds in circulation maturing in 2005 was EUR 19 million (2003: EUR 245 million for those maturing in 2004).

note 13 Other liabilities

As at 31 December 2004, the item ***Other liabilities*** amounted to EUR 184 million (2003: EUR 192 million). This item mainly covers miscellaneous amounts payable in the short term such as coupons and securities to be redeemed as paying agent.

note 14 Subordinated liabilities

The following subordinated loans were outstanding as at 31 December 2004:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	ACCOUNTING BALANCE AS AT 31.12.2004	AS AT 31.12.2003
Subordinated debenture loan	7.875%	19/07/94	19/07/04	-	24.8
Subordinated debenture loan	8.625%	14/10/94	14/10/04	-	24.8
Subordinated debenture loan	7.375%	25/10/95	25/10/05	74.4	74.4
Subordinated debenture loan	7.125%	17/11/95	17/11/05	49.6	49.6
Subordinated debenture loan	4.500%	17/04/98	17/04/08	49.6	49.6
Subordinated debenture loan	5.000%	26/06/98	26/06/08	49.6	49.6
Subordinated debenture loan	4.625%	28/10/98	28/10/08	49.6	49.6
Subordinated debenture loan	5.250%	25/11/98	25/11/08	53.8	53.7
Subordinated debenture loan	6.375%	31/01/01	31/01/11	400.0	400.0
Subordinated debenture loan	6.375%	23/02/01	23/02/16	200.0	200.0
				926.4	**976.0**

All the loans are denominated in EUR except for the one issued on 25 November 1998 for an amount of DKK 400 000 000.

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2004, EUR 43 million had been issued (2003: EUR 35 million).

Subordinated loans and cash certificates rank immediately after all other unsubordinated liabilities and commitments of the Bank towards third parties.

Interest payable by the Bank for subordinated liabilities during the financial year amounts to EUR 63 million (2003: EUR 65 million).

note 15 | Special items with a reserve quota portion

The amount booked under the item ***Special items with a reserve quota portion*** relates to capital gains on reinvestment as defined in Article 54 and 54(a) of the law on income tax.

Pursuant to these Articles, capital gains resulting from the transfer or the conversion of assets may be exempted from tax, if certain conditions are met, when such capital gains are transferred to other assets acquired or constituted by the Bank.

Capital gains from the transfer of assets mainly result from the sale of buildings and disposal of participating interests and various securities.

Within the framework of adapting to the IFRS, the amount booked under ***Special items with a reserve quota portions*** invested in buildings and in the holding in Banque Continentale du Luxembourg S.A. (given its planned absorption by KBL) was written back during 2004.

note 16 | Hybrid capital instruments

In 2003, the Bank issued a capital hybrid instrument for JPY 20 billion. This loan can be assimilated in Tier 1.

The contract governing this loan does not give compulsory maturity dates and does not contain stipulations pursuant to which an early redemption could be required by an investor.

This loan is subordinated to all other debts which the Bank has to third parties. It is not convertible. Expenses paid by the Bank for this loan during the year amounted to JPY 562 million (EUR 4 million) (2003: JPY 314 million, EUR 2.3 million).

note 17 Capital

The subscribed and paid-up capital was EUR 189 million represented by 18 353 387 ordinary shares without par value and by 1 975 320 non-voting preference shares without par value. As at 31 December 2004, the Bank held 21 571 (2003: 60) of its own shares.

note 18 Development of share capital, reserves and results brought forward

EUR million	CAPITAL	SHARE PREMIUM	STATUTORY RESERVE	RESERVE FOR OWN SHARES	FREE RESERVES (*)	PROFIT BROUGHT FORWARD	PROFIT FROM THE FINANCIAL YEAR	DIVIDENDS (D) AND DIRECTORS' FEES (T)
Balance as at 1 January 2004	189.0	354.6	18.9	0.0	568.4	0.7	180.0	
Allocation of profit according to the AGM of 28 April 2004					59.9	-0.7 0.6	-180.0	118.6 (D) 1.6 (T)
Transfer/(carry-over) to the reserves for own shares				2.9	-2.9			
Profit for 2004							188.2	
Balance as at 31 December 2004	189.0	354.6	18.9	2.9	625.4	0.6	188.2	

Pursuant to the Luxembourg law on public limited companies (sociétés anonymes) a sum equal to not less than 5% of the net profit is allocated each year to a reserve account until such time as that reserve is equal to 10% of the share capital. The allocation is made during the following financial year. The legal reserve cannot be distributed.

(*) A total amount of EUR 101.1 million has been allocated to the special reserve for wealth tax, as deductions over the last five years. To benefit from this tax break, the Bank undertakes to enter, before the end of the financial year following the allocation, in a item in the reserves, an amount equal to five times the wealth tax charged and to keep this reserve on the balance sheet for the five tax years following the year of allocation. If this reserve is not kept until the end of this five-year period (for a reason other than incorporation into the capital), the tax charge will be increased for the tax year in question by one fifth of the amount of the reserve used.

note 19 | Assets pledged as collateral security

As at 31 December 2004 (2003), the total amount of assets pledged by the Bank as collateral security for its own commitments is as follows:

ASSETS PLEDGED AS COLLATERAL SECURITY	AMOUNT EUR million	COMMENTS
Treasury and other bills	589 (2 791)	Assets pledged by the Bank as collateral security for its activities with the Luxembourg Central Bank
Securities pledged	6 152 (3 213)	Assets pledged for 'repo-reverse repo' activities
Bonds and other fixed-income securities	105 (27)	Assets pledged as collateral security for securities lending or lines of credit granted

note 20 | Contingent liabilities

The contingent liabilities of the Bank include in particular the following items as at 31 December 2004:

	TOTAL CONTINGENT LIABILITIES		OF WHICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS	
EUR million	2004	2003	2004	2003
Guarantees and other direct credit substitutes	575	463	488	395
Counter-guarantees	10	9	-	-
	585	472	488	395

Guarantees and other direct credit substitutes represent real and personal security made on behalf of associated undertakings and third parties.

note 21 | Commitments

The main items booked under "Commitments" as at 31 December 2004 were as follows:

	Total commitments		Of which: commitments to associated undertakings	
EUR million	2004	2003	2004	2003
Forward purchase of assets	5	2	-	-
Amounts to be paid up in respect of securities, participating interests and shares in associated undertakings	33	30	6	1
Unused confirmed credits	1 126	1 169	58	89
Settlement of spot transactions	121	142	15	7
Other	69	-	-	-
	1 354	1 343	79	97

The Bank has contracted certain other commitments which are not recorded in the balance sheet or in the off-balance sheet items but should be mentioned in order to obtain a clear picture of its financial situation.

Thus the Bank is a member of the Association for the Guarantee of Deposits, Luxembourg, referred to in note 33 below.

The Bank is also a member of the clearing system of the Banking Association for the euro.

note 22 | Services

The Bank provides the following services to its customers:

- wealth management advice,
- securities custody and administration,
- rental of safes,
- fiduciary representative services,
- agent services,
- custodian for undertakings for collective investment.

note 23 | Breakdown of derivatives by category of instrument and residual maturity

The table below gives **the breakdown of <u>non-trading book derivatives</u> as at 31 December 2004,** (as defined in Note 4) by category of instrument and residual maturity.

The great majority of these operations aim at covering fluctuations in interest rates, exchange rates and market prices.

This table shows only operations to be delivered.

DERIVATIVES (non-trading book)	OTC										STOCK MARKET	
					2004	2003					**2004**	2003
	<= 3 MONTHS	>3 MONTHS	> 1 YEAR	> 5 YEARS			<= 3 MONTHS	>3 MONTHS	> 1 YEAR	> 5 YEARS		
notional value in EUR million		<= 1 YEAR	<= 5 YEARS		**TOTAL**	TOTAL		<= 1 YEAR	<= 5 YEARS		**TOTAL**	TOTAL
Categories of instruments												
Interest rate instruments												
Futures	-	-	-	-	-	1	5	-	-	-	5	-
Swaps	5 588	11 747	23 327	2 100	42 762	27 591	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-	-	-
					42 762	27 592					5	-
Gold/currency instruments												
Futures	21	243	-	-	264	175	-	-	-	-	-	-
Swaps	10 556	1 121	434	-	12 111	11 024	-	-	-	-	-	-
Options	1	29	-	-	30	11	-	-	-	-	-	-
					12 405	11 210					-	-
Equity instruments												
Futures	36	-	-	-	36	103	-	-	-	-	-	-
Swaps	-	10	-	-	10	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	30	-	-	-	30	33
					46	103					30	33
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total					55 213	38 905					35	33

The table below gives the breakdown of trading book derivatives as at **31 December 2004** (as defined in note 4) by category of instruments and residual maturity. This table only shows OTC operations to be delivered.

DERIVATIVES (TRADING BOOK)	OTC									
									2004	2003
	<= 3 MONTHS		> 3 MONTHS <= 1 YEAR		> 1 YEAR <= 5 YEARS		> 5 YEARS		TOTAL	
notional value in EUR million	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	
Categories of instruments										
Interest rate instruments										
Futures	-	-	431	1	-	-	-	-	431	2
Swaps	30	-	377	2	1 258	34	569	31	2 234	1 606
Options	-	-	-	-	-	-	-	-	-	-
									2 665	**1 608**
Gold/currency instruments										
Futures	1 292	3	170	1	-	-	-	-	1 462	651
Swaps	-	-	-	-	19	1	-	-	19	39
Options	-	-	-	-	-	-	-	-	-	-
									1 481	**690**
Equity instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									-	**-**
Credit derivatives	-	-	-	-	-	-	-	-	-	68
Total									**4 146**	**2 366**

The table below gives the breakdown of **trading book derivatives** as at **31 December 2004** (as defined in note 4) by category of instruments of residual maturity. This table only shows operations to be delivered on a regulated market.

DERIVATIVES (TRADING BOOK)									REGULATED MARKET	
									2004	2003
	<= 3 MONTHS		> 3 MONTHS <= 1 YEAR		> 1 YEAR <= 5 YEARS		> 5 YEARS		TOTAL	
notional value in EUR million	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2004	NOTIONAL VALUE	
Categories of instruments										
Interest rate instruments										
Futures	709	-	1 209	-	-	-	-	-	1 918	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									1 918	-
Gold/currency instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									-	-
Equity instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									-	-
Credit derivatives	-	-	-	-	-	-	-	-	-	-
Total									1 918	-

The result of the evaluation at market price of all derivatives (from both trading and non-trading book) is a positive amount of EUR 373 million (2003: EUR 213 million).

note 24 | Breakdown of balance sheet and off-balance sheet items by country group

The table below gives the breakdown of asset items by country group as at 31 December 2004.

ASSET ITEM EUR million (accounting value)	COUNTRY ZONE	2004	2003
Cash and loans and advances to credit institutions	European Union	10 345	10 743
	Other zone A countries	771	387
	Other	57	64
		11 173	11 194
Loans and advances to customers	European Union	1 775	1 748
	Other zone A countries	23	59
	Other	82	70
		1 880	1 877
Treasury bills and transferable securities, excluding participating interests and shares in associated undertakings	European Union	10 334	9 504
	Other zone A countries	720	1 652
	Supranational outstandings	16	29
	Other	168	238
		11 238	11 423
Total		24 291	24 494

The table below gives the breakdown of liability items by country group as at 31 December 2004.

LIABILITY ITEM EUR million (accounting value)	COUNTRY ZONE	2004	2003
Amounts owed to credit institutions	European Union	10 063	2 488
	Other zone A countries	2 197	8 668
	Supranational outstandings	23	-
	Other	468	509
		12 751	11 665
Amounts owed to customers	European Union	9 692	10 042
	Other zone A countries	195	277
	Supranational outstandings	5	26
	Other	357	456
		10 249	10 801
Total		23 000	22 466

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December 2004.

OFF-BALANCE SHEET ITEMS EUR million (accounting value)	COUNTRY ZONE	2004	2003
Contingent liabilities	European Union	582	461
	Other zone A countries	3	8
	Other	-	3
		585	**472**
Commitments: unused confirmed credits	European Union	1 095	1 135
	Other zone A countries	30	34
	Other	1	-
		1 126	**1 169**

The table below gives the breakdown of derivatives by country group as at 31 December 2004.

DERIVATIVES EUR million (accounting value)	COUNTRY ZONE	2004	2003
Interest rate instruments			
Futures	European Union	2 349	19
	Other zone A countries	5	3
	Other	-	-
Swaps	European Union	38 054	26 198
	Other zone A countries	6 942	2 980
	Other	-	-
Options	European Union	-	-
	Other zone A countries	-	-
	Other	-	-
		47 350	29 200
Gold/currency instruments			
Futures	European Union	1 681	802
	Other zone A countries	24	18
	Other	22	7
Swaps	European Union	9 644	7 700
	Other zone A countries	2 482	3 354
	Other	3	8
Options	European Union	30	3
	Other zone A countries	-	8
	Other	-	-
		13 886	11 900

DERIVATIVES CONT'D EUR million (accounting value)	COUNTRY ZONE	2004	2003
Equity instruments			
Futures	European Union	7	50
	Other zone A countries	29	53
	Other	-	-
Swaps	European Union	10	-
	Other zone A countries	-	-
	Other	-	-
Options	European Union	30	33
	Other zone A countries	-	-
	Other	-	-
		76	136
Credit derivatives	European Union	-	63
	Other zone A countries	-	5
	Other	-	-
		-	68

note 25 | Breakdown of asset and off-balance sheet items by economic sector

The table below gives the breakdown of asset items by economic sector as at 31 December 2004.

ECONOMIC SECTORS EUR million (accounting value)	ASSET ITEM	2004	2003
Public sector	Debts	8	8
	Treasury bills and fixed-income securities	9 910	10 286
Public sector total		**9 918**	**10 294**
Banks			
Central banks	Debts	165	698
	Fixed-income securities	4	11
		169	**709**
Multilateral development banks	Fixed-income securities	16	31
		16	**31**
Other banks	Debts	11 008	10 496
	Fixed-income securities	243	119
	Variable-yield securities (*)	2	2
		11 253	**10 617**
Banks total		**11 438**	**11 357**
Financial establishments			
UCI	Debts	107	134
	Fixed-income securities	17	-
	Variable-yield securities (*)	92	99
		216	**233**
Holdings	Debts	41	77
	Fixed-income securities	4	9
	Variable-yield securities (*)	1	1
		46	**87**
Other financial establishments	Debts	1 394	1 237
	Fixed-income securities	511	327
	Variable-yield securities (*)	33	16
		1 938	**1 580**
Financial establishments total		**2 200**	**1 900**

(*): ex holdings and shares in associated undertakings

ECONOMIC SECTORS CONT'D EUR million (accounting value)	ASSET ITEM	2004	2003
Other sectors			
Agriculture, industry, construction	Debts	40	38
	Fixed-income securities	155	255
	Variable-yield securities (*)	11	9
		206	**302**
Commerce, catering, accommodation	Debts	30	31
	Fixed-income securities	37	23
	Variable-yield securities (*)	2	1
		69	**55**
Transport and communications	Debts	7	5
	Fixed-income securities	56	35
	Variable-yield securities (*)	1	-9
		64	**31**
Other companies	Debts	131	218
	Fixed-income securities	138	188
	Variable-yield securities (*)	4	20
		273	**426**
Other	Debts	122	129
		122	**129**
Other sectors total		**734**	**943**
Total by asset	Debts	13 053	13 071
	Treasury bills and fixed-income securities	11 092	11 283
	Variable-yield securities (*)	146	139
Overall total		**24 291**	**24 494**

(*): ex holdings and shares in associated undertakings

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December 2004.

ECONOMIC SECTORS EUR million		OFF-BALANCE-SHEET ITEMS	2004	2003
Banks				
	Other banks	Contingent liabilities	299	178
		Credit lines granted	932	935
Banks total			1 231	1 113
Financial establishments				
	UCI	Credit lines granted	78	41
	Holdings	Contingent liabilities	-	3
		Credit lines granted	19	58
			19	61
	Other financial establishments	Contingent liabilities	222	228
		Credit lines granted	33	46
			255	274
Financial establishments total			352	376
Other sectors				
	Agriculture, industry, construction	Contingent liabilities	11	13
		Credit lines granted	13	10
			24	23
	Commerce, accommodation, catering	Contingent liabilities	2	-
		Credit lines granted	7	6
			9	6
	Transport and communications	Contingent liabilities	5	1
		Credit lines granted	-	-
			5	1
	Other companies	Contingent liabilities	45	47
		Credit lines granted	35	61
			80	108
	Other	Contingent liabilities	1	2
		Credit lines granted	8	13
			9	15
Other sectors total			127	153
Total by off-balance-sheet item		**Contingent liabilities**	585	472
		Credit lines granted	1 126	1 170
Overall total			1 711	1 642

The table below gives the breakdown of derivatives by economic sector as at 31 December 2004.

DERIVATIVES EUR million (accounting value)	ECONOMIC SECTOR	2004	2003
Interest rate instruments			
Futures	Other financial establishments	1 923	3
	Other banks	431	19
Swaps	Other banks	44 325	28 770
	Other financial establishments	661	398
	UCI	10	10
	Holdings	-	-
	Other companies	-	-
	Other services	-	-
Options	Other financial establishments	-	-
		47 350	29 200
Gold/currency instruments			
Futures	Other banks	151	95
	Other financial establishments	210	6
	UCI	1 301	705
	Holdings	43	8
	Other companies	-	-
	Other services	1	-
	Physical person	20	13
Swaps	Other banks	11 389	10 496
	Other financial establishments	138	246
	UCI	602	319
	Holdings	-	-
	Other companies	1	1
	Other services	-	-
	Physical person	-	-
Options	Other banks	30	11
		13 886	11 900
Equity instruments			
Futures	Other financial establishments	36	103
Swaps	Other banks	5	-
	Other financial establishments	5	-
Options	Other banks	-	-
	Other financial establishments	30	33
		76	136
Credit derivatives	Other banks	-	68
		-	68

note 26 | Breakdown of OTC derivatives by counterparty credit rating

The table below gives the breakdown of OTC and non-trading book derivatives (as defined in Note 4) as at 31 December 2004 by counterparty credit rating.

Current, future and total replacement costs and the net exposure to risk are calculated pursuant to legislation laid down in CSSF Circular 2000/10 on the definition of capital adequacy ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector.

The column **current replacement costs** only gives the current positive replacement costs, i.e. contracts which, on the basis of an analysis of current market rates have a replacement cost.

The column **potential future replacement costs** reflects the risk likely to be run during the residual life of the derivative. It is calculated on the basis of the nominal amount, based on the residual period left.

The column **net exposure to risk** corresponds to the sum of total replacement costs and the weighting factors applicable to the various counterparties. A capital adequacy requirement is calculated on the basis of this amount.

The notional amount corresponds to the nominal amounts in the contracts cited:

	2004					2003
COUNTERPARTIES' CREDIT RATING (S&P RATINGS) EUR million	NOTIONAL AMOUNTS	CURRENT REPLACEMENT COSTS	POTENTIAL FUTURE REPLACEMENT COSTS	TOTAL REPLACEMENT COSTS	NET EXPOSURE TO RISK	NET EXPOSURE TO RISK
AAA	1 233	4	10	14	1	10
AA+	2 192	26	69	95	9	4
AA	13 225	95	244	339	30	25
AA-	17 614	270	624	894	71	45
A+	8 827	278	609	887	67	89
A	2 559	29	68	97	8	20
A-	474	11	23	34	2	5
No rating	9 089	114	293	407	46	23
TOTAL	55 213				234	221

note 27 | **Foreign exchange positions**

Foreign exchange positions as at 31 December 2004 were as follows (short positions are in brackets):

	FORWARD POSITIONS IN FOREIGN CURRENCY MILLIONS	SPOT POSITIONS IN FOREIGN CURRENCY MILLIONS	NET FORWARD POSITIONS IN FOREIGN CURRENCY MILLIONS	NET COUNTERVALUE POSITIONS IN EUR MILLION 2004	NET COUNTERVALUE POSITIONS IN EUR MILLION 2003
AUD	(15.31)	15.01	(0.30)	(0.17)	(0.3)
CAD	(7.95)	8.13	0.18	0.11	0.2
CHF	(177.76)	176.94	(0.82)	(0.53)	(0.2)
CZK	309.51	(311.64)	(2.13)	(0.07)	(0.1)
DKK	384.58	(382.13)	2.45	0.33	0.8
GBP	63.36	(46.24)	17.12	24.28	22.6
HKD	(10.59)	9.32	(1.27)	(0.12)	(0.3)
HUF	(208 185.87)	246 371.02	38 185.15	155.24	113.7
JPY	(653 287.15)	653 280.17	(6.98)	(0.05)	(0.1)
NOK	(60.45)	60.21	(0.24)	(0.03)	2.1
NZD	23.08	(23.06)	0.02	0.01	0.2
PLN	(2 033.06)	2 033.93	0.87	0.21	51.1
SEK	(803.01)	805.99	2.98	0.33	4.1
SKK	125.14	(133.28)	(8.14)	(0.21)	0.0
USD	1 271.49	(1 262.26)	9.23	6.79	(0.2)
XAU	-	(0.58)	(0.58)	(5.95)	(2.9)
ZAR	180.47	(180.94)	(0.47)	(0.06)	0.1

Positions in HUF fall under acquisitions of government bonds, acquired in order to benefit from the convergence effects of this currency preparing to enter the euro.

note 28 | Other income and operating charges

The amounts recorded under the item Other income represent revenue from activities of the Bank but which are not related to the current financial year. They also cover capital gains on the sale of holdings, rent from buildings owned by the Bank and the recovery of tax provisions for previous years. Within the framework of adapting to the IFRS, in 2003 the Bank wrote back various provisions, including the whole of the AGDL provision (see note 33).

The amounts under 'Other operating charges' are one-off amounts linked to the Bank's operations.

note 29 | Principal subsidiaries and associated undertakings

As at 31 December 2004, the list of undertakings in which the Bank had a significant shareholding and which amounts to at least 20% of the capital, was as follows:

NAME AND REGISTERED OFFICE	PORTION OF CAPITAL HELD	CAPITAL	RESULT	REFERENCE DATE
Brown, Shipley & Co. Ltd – Great Britain	100.00%	31 912 701 GBP	7 660 915 GBP	31/12/2004
Kredietbank (Suisse) S.A. – Switzerland	99.99%	128 352 877 CHF	14 929 605 CHF	31/12/2004
KBL Bank Ireland – Ireland (*)	100.00%	117 969 968 EUR	7 409 707 EUR	31/12/2004
KBL France S.A. – France	100.00%	67 371 891 EUR	-8 125 835 EUR	31/12/2004
KB Luxembourg (Monaco) S.A. – Monaco	100.00%	8 921 264 EUR	1 006 883 EUR	31/12/2004
Banque Continentale du Luxembourg S.A. – Luxembourg	100.00%	94 466 856 EUR	17 264 661 EUR	31/12/2004
Financière et Immobilière S.A. – Luxembourg	100.00%	2 419 283 EUR	261 780 EUR	31/12/2004
Banco Urquijo S.A. – Spain	99.67%	236 837 942 EUR	14 084 090 EUR	31/12/2004
KB Lux Immo S.A. – Luxembourg (*)	100.00%	37 915 946 EUR	-855 572 EUR	31/12/2004
Renelux S.A. – Luxembourg	100.00%	2 042 832 EUR	- EUR	31/12/2004
Merck Finck & Co – Germany (*)	100.00%	169 779 762 EUR	109 974 EUR	31/12/2004
European Fund Administration (EFA) – Luxembourg (*)	52.70%	7 086 257 EUR	3 564 654 EUR	31/12/2004
Kredietrust Luxembourg S.A. (KTL) – Luxembourg	100.00%	11 039 850 EUR	15 065 437 EUR	31/12/2004
Fumagalli Soldan Sim S.p.A. – Italy	94.54%	32 339 335 EUR	-3 212 784 EUR	31/12/2004
Theodoor Gilissen Bankiers N.V. – Netherlands	100.00%	70 131 529 EUR	2 538 314 EUR	31/12/2004
Fidef Ingénierie Patrimoniale S.A. - France	99.99%	-2 232 803 EUR	-1 006 575 EUR	31/12/2004
Gecalux SARL – Luxembourg (*)	50.00%	2 342 195 EUR	-1 777 415 EUR	31/12/2004
Puilaetco Private Bankers S.A. – Belgium	100.00%	52 251 086 EUR	-6 425 733 EUR	31/12/2004
Westhouse Securities LLP – Great Britain	65.00%	3 300 005 GBP	288 489 GBP	31/12/2004

(*): direct and indirect percentage holding.

note 30 | Number of employees

The average number of persons employed by the Bank breaks down as follows:

	2004 Number	2003 Number
Senior management	40	34
Managerial staff	133	131
Clerical staff	1 074	1 086
Workers	7	7
	1 254	**1 258**

note 31 | Remuneration, advances and commitments to various bank directors and officers

POSITION AS AT 31.12.2004 EUR	REMUNERATION PAID IN 2004 IN ACCORDANCE WITH POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE A RETIREMENT PENSION
Board of Directors	1 685 000 (23)	3 832 262 (10)	2 674 674 (10)	53 166 (2)	- (-)
Senior management	9 820 471 (40)	4 114 482 (23)	2 390 939 (22)	7 680 (2)	677 572 (40)

POSITION AS AT 31.12.2003 EUR	REMUNERATION PAID IN 2003 IN ACCORDANCE WITH POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE A RETIREMENT PENSION
Board of Directors	1 733 333 (23)	3 221 660 (11)	2 515 433 (11)	56 960 (2)	- (-)
Senior management	8 635 087 (34)	3 365 698 (19)	1 992 428 (18)	5 798 (1)	591 827 (34)

( ): number of persons concerned

note 32 | Extraordinary charges

As part of its cost control policy, the Bank decided to continue in 2004 the steps taken in 2002 to encourage early retirement. As in previous years, the estimated cost was fully provisioned under the item *Exceptional expenses.*

note 33 | Association for the guarantee of deposits

On 25 September 1989 all credit institutions in the banking sector in the Grand Duchy of Luxembourg came together to form a non-profit association under the name of Association pour la Garantie des Dépôts, Luxembourg (AGDL).

In accordance with the Law of 5 April 1993, as amended by the Laws of 11 June 1997 and of 27 July 2000, AGDL's sole object is to provide a system for the mutual guarantee of deposits of private customers of AGDL member banks (the "Guarantee"). All depositors who are private persons are eligible for this Guarantee, irrespective of their nationality or place of residence. The Guarantee also extends to small companies subject to the law of a Member State of the European Union, which, because of their size, are authorised, pursuant to Article 215 of the Law of 10 August 1915 on commercial companies, as amended, to draw up an abridged balance sheet.

In the case of the insolvency of a member establishment, the AGDL protects all cash depositors by guaranteeing the reimbursement of their deposits up to an amount of EUR 20 000.

In the same case, the AGDL protects all investors by guaranteeing the reimbursement of their debts resulting from investments up to an amount of EUR 20 000.

For each member, the Guarantee is limited to a maximum amount of EUR 40 000 or its countervalue in foreign currency per customer, regardless of the number of accounts or deposits a customer may have with the same credit institution.

The amount of the guarantee is an absolute limit and cannot be increased to take into account interest, fees or any other amounts.

In 2003 and within the framework of adapting to the IFRS, the Bank wrote back the AGDL provision set up in previous years (see note 28).

note 34 | Disputes

In the course of 2000, several directors, managers and members of staff of the bank as well as some former directors, managers and members of staff were charged by a Belgian examining magistrate with offences relating to a tax suit as a result of their professional activities at the Bank.

The outcome of the proceedings is not certain and it is impossible to foresee the possible impact on the financial statements of the bank.

After analysing the situation and all the reserves already held in line with the Bank's traditionally prudent approach to risk management, it is not, at this moment, deemed necessary to constitute a provision.

note 35 | Post-report events

On 23 December 2004 Almanij S.A. and KBC Bank and Insurance Holding Company N.V. issued a joint press release announcing that their respective Boards of Directors had decided to submit a motion to the Extraordinary General Meeting of their respective shareholders on 2 March 2005 to simplify their structure through a merger by acquisition with Almanij being acquired by KBC Bank and Insurance Holding Company N.V.

Following this announcement Almanij launched a public cash tender offer for the shares of the Bank on 31 January 2005. This successful offer was finalised on 14 February 2005. Pursuant to the intentions expressed in the context of this public cash tender offer a request for the suspension of the listing of the Bank's shares on the Luxembourg Stock Exchange will be made.

Furthermore, on 1 January 2005 the Bank merged with its Luxembourg subsidiary Banque Continentale du Luxembourg S.A. This company's activities have been completely taken over by the Bank.

KBC GROUP

Situation as at 2 March 2005

KBC GROUP N.V.

KBC Group N.V. is responsible for general strategy, the allocation of capital, profitability requirements, major strategic investments, risk management in the broad sense, general ALM policy, supervising the coherence of budgets and profit planning, and the audit function at co-ordinating level. KBC Group does not itself carry out any financial-services-related business, but is responsible for a number of integrated support activities (in marketing, logistics and IT) for the Group's Belgian companies.

KBC BANK N.V.

- KBC BANK N.V. has competence in all matters specific to the retail and corporate banking business. It is active on the Belgian market, the international corporate market and the financial markets. It is also the parent company of all the Group companies involved in banking and finance in Belgium, Central and Eastern Europe and elsewhere.

KBC INSURANCE N.V.

- KBC Insurance N.V. has competence in all matters specific to the insurance business. It operates on the Belgian (retail) market, and is also the parent company of all the Group companies involved in insurance activities in Belgium and Central and Eastern Europe

KBL GROUP EUROPEAN PRIVATE BANKERS

- Kredietbank S.A. Luxembourgeoise (KBL), based in Luxembourg, heads a European network of private bankers - KBL Group European Private Bankers. Its network of subsidiaries offer made-to-measure private banking services to a wealthy European and international clientele. KBL also serves as a centre of expertise for its subsidiaries.

KBC ASSET MANAGEMENT N.V.

- KBC Asset Management N.V. is a KBC Group company providing a complete range of asset management services, with a wholly-owned subsidiary in Ireland (KBC Asset Management Ltd.). It also serves as the competence centre for the asset-management companies of KBC Groups Central and Eastern European subsidiaries.

GEVAERT N.V.

- Gevaert is the private equity and specialized investment arm of KBC Group, operating through its various subsidiaries

KBC GROUP

Main companies

KBC GROUP

KBC Bank (100 %)

Main subsidiaries and participating interests

Belgium

- Antwerpse Diamantbank
- CBC Banque
- Centea
- Fin-Force
- International Factors
- KBC Investco
- KBC Lease
- KBC Securities

Central Europe

- CSOB Bank
- K&H Bank
- Kredyt Bank
- Nova Ljubljanska banka
- Patria Financo

Rest of the world

- Assurisk
- IIB Bank
- KBC Bank Deutschland
- KBC Bank Nederland
- KBC Clearing
- KBC Finance Ireland
- KBC Financial Products
- KBC IFIMA
- KBC Lease
- KBC Peel Hunt.
- Orbay

KBC Insurance (100 %)

Main subsidiaries and participating interests

Belgium

- ADO
- Fidea
- Secura

Central Europe

- Argosz
- CSOB Insurance (CR)
- CSOB Insurance (SR)
- K&H Life
- NLB Vita
- WARTA

Rest of the world

- FBD Holdings
- Lucare
- VITIS Life

KBL Private bank (97 %)

Main subsidiaries and participating interests

Belgium

- Puilaetco Private Bankers

Occidentale Europe

- Banco Urquijo
- Brown, Shipley & Co.
- Banca KBL Fumagalli Soldan
- KBL Bank Ireland
- KBL France
- KB Luxembourg (Monaco)
- Kredietbank (Suisse)
- Kredietbank Luxembourg
- Merck Finck & Co
- Theodoor Gilissen Bankiers

KBC Asset Management (100 %)

Main subsidiaries and participating interests

Rest of the world

- KBC AM Ltd (Ireland)

Gevaert (100 %)

Main subsidiaries and participating interests

Belgium

- Almafin
- Bofort

KBL SUBSIDIARIES AND REPRESENTATIVE OFFICES

SUBSIDIARIES

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Management & Secretarial Office	Tel.: 4797-2774	International Relations	Tel.: 4797-3869
Fixed Income		Corporate, Credit and Analysis	Tel.: 4797-3885
Primary Markets & Emerging	Tel.: 26 21 01 11	Corporate Trust	Tel.: 4797-3926
Secondary Markets	Tel.: 26 21 01 22	Loans and Research division	Tel.: 4797-2786
Sales	Tel.: 26 21 01 33	Custody Division	Tel.: 4797-2750
Equity Markets		KBL Direct Access	Tel.: 4797-3618
Luxembourg Equities & Investment Funds	Tel.: 26 21 02 22	Transfers	Tel.: 4797-2571
Foreign Equities - Sales Traders	Tel.: 26 21 02 11	Coupons and Redeemable Bonds	Tel.: 4797-5301
Money Markets		Private Equity & Corporate Finance	Tel.: 4797-2941
Treasury	Tel.: 26 21 03 11	Corporate Banking & International Loans	Tel.: 4797-3905
Repos & Securities Lending	Tel.: 26 21 03 22		
Forex	Tel.: 26 21 03 33		
Bullion	Tel.: 26 21 03 55		
Corporate Desk & Fiduciary Deposits	Tel.: 26 21 03 44		

PRIVATE CLIENTS

Products and services	Tel.: 4797-2020	Stock Exchange Orders	Tel.: 4797-2272
Appointments at reception	Tel.: 4797-2090	Private Banking Department	Tel.: 4797-2100/2099

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Manager:	Manager:	Manager:	Manager:
Jean-Marie Spanier	**Erik Roose**	**Harald Geibel**	**Bernard Jacquemin**
			(since 01/01/05)

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This annual report is available in Dutch, French and English.

Only the French version is authentic.