european private bankers

ANNUAL REPORT 2002

Kredietbank Luxembourg

KBL GROUP EUROPEAN PRIVATE BANKERS

80 locations, 8 European countries

GERMANY

Merck Finck & Co, Privatbankiers

Head office Munich

SPAIN

Banco Urquijo

Head office Madrid

FRANCE

KBL France

Head office Paris

Subsidiaries (head office): Europe Egide Finance (Paris), Fidef (La Rochelle), Kempf (Nancy), Michaux Gestion (Lyon)

GREAT BRITAIN

Brown, Shipley & Co.

Head office London

Subsidiary (head office): Brown Shipley Private Bank (Jersey)

ITALY

Fumagalli Soldan SIM spa

Head office Milan

GRAND DUCHY OF LUXEMBOURG

Kredietbank Luxembourg

Head office Luxembourg

Subsidiaries in Luxembourg: Banque Continentale du Luxembourg, Kredietrust Luxembourg

PRINCIPALITY OF MONACO

KB Luxembourg (Monaco)

Head office Monaco

SWITZERLAND

Kredietbank (Suisse)

Head office Geneva

Branches in Basel, Lugano and Zurich. Subsidiaries (head office): BLP Banque de Portefeuilles (Lausanne), Jacxsens & Partner (Zurich), Privagest (Geneva)

The KBL group is also present in Ireland with KBL Bank Ireland active in international loans and also has representative offices in Cape Town, Hong Kong, New York and Tokyo.

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SIGNIFICANT EVENTS IN 2002

The KBL GROUP European Private Bankers extended and cemented its activities in Europe and is now present in eight European countries, including the region's five biggest markets

- KBL France acquired Michaux Gestion S.A., a highly-regarded wealth manager operating in the Rhône-Alpes region
- Merck Finck & Co acquired the domestic private banking business of WestLB, strengthening the group's presence in Rhineland-Westphalia
- KBS (Lugano) was integrated within Kredietbank (Suisse)
- All UK subsidiaries were integrated with Brown, Shipley & Co

Risk management was tightened, to comply with the requirements of the supervisory authorities

- Control of market risks linked to the group's banking activities was tightened and their management centralised within the Group Risk Management department
- Loan portfolios in Germany and the UK were voluntarily further slimmed down
- The loss ratio on the loan portfolio was just 0.15%

Cost control was increased throughout the group

- Restructuring programmes were stepped up at most subsidiaries
- Economies of scale between Luxembourg-based group companies
- Early retirement schemes and part-time working programmes were introduced at KBL, KTL and BCL
- General expenses were stable despite substantial IT investment, down 3.4% on a year-on-year basis

As at 31 December 2002, the consolidated capital adequacy ratio, after allocation of profits, was 13.0% and the consolidated capital adequacy ratio of basic equity (Tier One) was 8.4%

Significant influences on profits

- Amortisation of goodwill on acquisitions (mainly of West LB) was charged against profit for the year
- Provisions for initial consolidation differences set aside for Michaux were deducted
- All restructuring expenses were charged against 2002 profits
- The decline in net commissions was contained at 2.3% while net interest income was stable at 2001 levels, as the bank continued to take advantage of lower interest rates
- Complementary and niche businesses – Global Custody, incorporation, domiciliation and administration services for UCI (Undertakings for Collective Investment), international loans and financial agency services – were further developed and achieved good results
- The sale of KBL's stake in Cedel International yielded an exceptional capital gain

The group's share of consolidated net profit rose by 3.8% to EUR 180.9 million

A gross dividend of EUR 5.45 per share, 7.92% higher than last year, is to be paid

LETTER FROM THE PRESIDENT

After the exuberance of 2000 and the 2001 equities collapse, 2002 was a year of further losses and thwarted recovery. Despite central bank attempts to engineer a revival by cutting interest rates to their lowest levels for 40 years, the economy remained sluggish. The uncertain economic outlook eroded investor confidence, while concerns over the worldwide geopolitical situation were compounded by accounting scandals and high-profile bankruptcies.

However, the support of our core shareholder, the Almanij Group, allowed us to continue building up our group and as a result, our corporate motto "KBL Group European Private Bankers" is now more appropriate than ever.

After a phase of external growth fuelled by a string of acquisitions, we have entered a period of consolidation, which entails a few necessary changes.

Firstly, in accordance with established group policy, we began streamlining the activities of our subsidiaries to tighten their focus on our core business of private banking. Next, we applied our energies to risk management and cost control. At the same time, we encouraged initiatives designed to bring about economies of scale between subsidiaries and the parent company.

To secure the further expansion of our group around our federal model, on every market we are constantly on the look-out for leading professionals who listen to their clients and could help expand our client base. With this in mind, last year we acquired Michaux Gestion – a highly-regarded wealth manager operating in the French Rhône-Alpes region – for KBL France, and WestLB's domestic private banking business, for Merck Finck & Co, in a bid to strengthen our presence in the Rhineland-Westphalia region of Germany.

In our core business of private banking, we are constantly looking to enhance our range of products and services, so as to secure the loyalty of existing clients. Despite the fragility of the financial markets, we have continued to invest in this area. Although, like all private banks, we experienced a downturn in client transactions, mainly in securities, we have nonetheless succeeded in keeping stable assets under discretionary management as a percentage of the total assets we manage on behalf of our private clients.

Finally, our complementary and niche market businesses, including our lending business, with its very healthy loan portfolio, our UCI and our institutional asset management services, posted highly satisfactory results.

Overall, our efforts, and in particular the expertise and drive of all our employees in Europe, yielded tangible results, enabling KBL Group European Private Bankers to post an attributable consolidated net profit of EUR 180.9 million for 2002, an increase of 3.8%. Our shareholders will receive a gross dividend of EUR 5.45 per share, 7.92% higher than last year.

Encouraged by these healthy results, we intend to continue along the same path in coming years. Although 2002 was not an easy year, we nevertheless managed to put the finishing touches to our process of consolidation. We are now ideally positioned to enter a new phase of growth and further expand our group's European presence.

Etienne Verwilghen
President of the Executive Committee

BOARD OF DIRECTORS

Jan HUYGHEBAERT
Chairman

Etienne VERWILGHEN
President
(since 01.07.02)
Kredietbank S.A. Luxembourgeoise

Damien WIGNY
President
(until 30.06.02)
Honorary President
(since 01.07.02)
Kredietbank S.A. Luxembourgeoise

Jean-Marie BARTHEL
Executive Director
Kredietbank S.A. Luxembourgeoise

Paul BORGHGRAEF
Managing Director
Concentra N.V.

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

Jean ADANT
Honorary President
Kredietbank S.A. Luxembourgeoise

Lucien DEMAN
Honorary Director
Kredietbank S.A. Luxembourgeoise

Frank DONCK
Director
Ibervest N.V.

Rik DONCKELS
(since 24.04.02)
President of the Management Committee
CERA HOLDING

Marc FRANCKEN
Managing Director
Gevaert S.A.

Catherine GUYON-SABBE
Managing Director
CGS N.V.

Jan Maarten de JONG
Member of the Management Board
ABN AMRO Bank NV

Jean-Paul LOOS
(since 24.04.2002)
Executive Director
Kredietbank S.A. Luxembourgeoise

Constant FRANSSENS
Honorary President
Kredietbank S.A. Luxembourgeoise

Luc WAUTERS
Honorary President of the Board of Directors
Kredietbank S.A. Luxembourgeoise

Edmond MULLER
Industrialist

Charles RUPPERT
(until 24.04.2002)
Executive Director
Kredietbank S.A. Luxembourgeoise

Paul TANGHE
(until 24.04.2002)
Managing Director
CERA Management Company

Marie-Christine VANTHOURNOUT-SANTENS
Director of Companies

Ferdinand VERDONCK
Managing Director
Almanij S.A.

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
(since 04.03.2002)
Staff representative
Kredietbank S.A. Luxembourgeoise

René SCHO
(until 04.03.2002)
Staff representative
Kredietbank S.A. Luxembourgeoise

INDEPENDENT AUDITORS

Deloitte & Touche

EXECUTIVE COMMITTEE

Etienne VERWILGHEN
President
(since 01.07.2002)

Damien WIGNY
President
(until 30.06.2002)

Jean-Marie BARTHEL

Antoine D'HONDT

Jean-Paul LOOS

Charles RUPPERT
(until 30.04.2002)

MANAGEMENT

Adelin BLAISE
Internal Audit

Luc CAYTAN
Markets-Trading

Thomas DOZIN
Corporate / Loans and Research

Rafik FISCHER
Operations Management

Marie-Paule GILLEN
General Secretariat

Michel GODFRAIND
Private Banking

Jean-Luc MARTINO
IT Department

Dominique MELOTTE
Human Resources & Equipment

Philippe PAQUAY
Accounts and Management Audit

Yves PITSAER
Subsidiaries

Christian D'HONDT
Marketing, Communication & Supports

Paul FELTEN
Organisation

Thierry LOPEZ
Group Risk Management

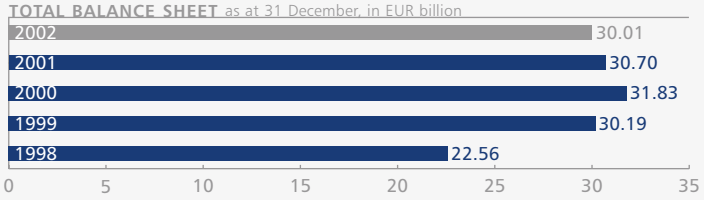
Roger DE BECKKER
Compliance Office

CONSOLIDATED KEY FIGURES

before allocation

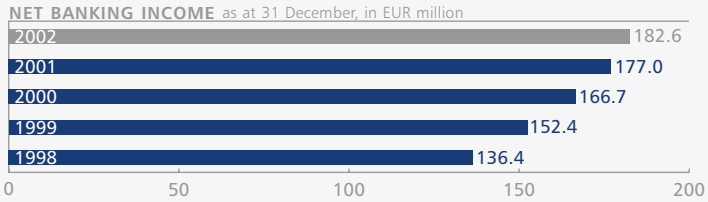
CONSOLIDATED BALANCE SHEET

as at 31 December, in EUR billion	1998	1999	2000	2001	2002
Total balance sheet	**22.56**	**30.19**	**31.83**	**30.70**	**30.01**
ASSETS					
Loans and advances to credit institutions	10.89	12.72	13.67	13.23	10.41
Loans and advances to the public sector and similar	5.03	8.37	8.26	7.71	10.22
Loans and advances to customers	5.60	7.43	8.22	8.12	7.67
LIABILITIES					
Amounts owed to customers and debts evidenced by certificates	12.01	15.17	16.61	16.97	18.07
Amounts owed to credit institutions	8.37	11.95	11.70	10.55	8.90
Shareholders' equity (Tier 1)	0.70	0.92	1.06	0.87	0.88
Shareholders' equity & similar items	1.05	1.42	1.54	1.37	1.36



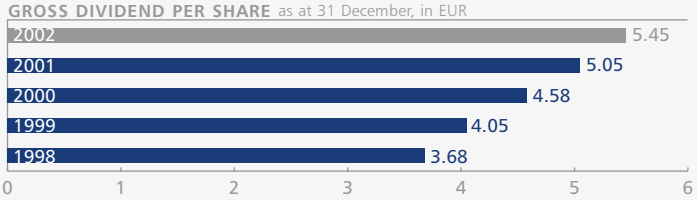
CONSOLIDATED INCOME STATEMENT

as at 31 December, in EUR million	1998	1999	2000	2001	2002
Net banking income	558.9	701.0	952,3	814.0	913.6
Gross operating income	239.2	287.8	454.7	286.5	383.5
Income taxes and other duties	65.1	67.4	70.4	63.7	30.7
Net profit	136.4	152.4	166.7	177.0	182.6
Dividend	64.0	82.3	93.1	102.7	110.8



DATA PER SHARE

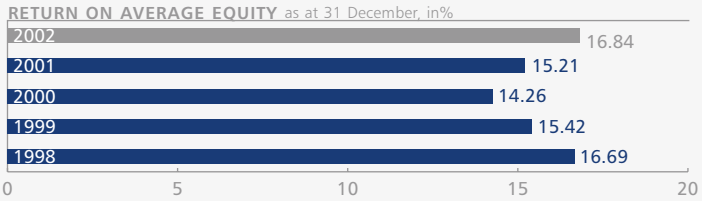
as at 31 December, in EUR	1998	1999	2000	2001	2002
Consolidated net profit (group share)	7.28	7.36	7.93	8.57	8.90
Gross dividend	3.68	4.05	4.58	5.05	5.45



FINANCIAL RATIOS

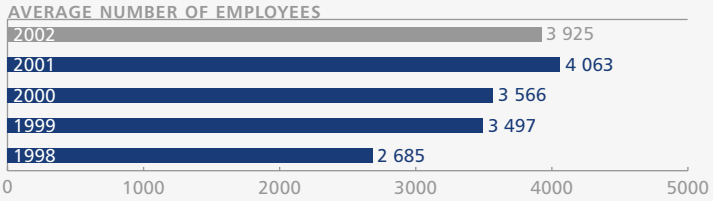
in %	1998	1999	2000	2001	2002
Risk-weighted solvency ratio (before allocation)	11.92	11.50	11.58	11.12	12.18
Risk-weighted solvency ratio (after allocation)	12.77	11.86	11.95	11.79	12.97
Return on average equity (ROAE)[1]	16.69	15.42	14.26	15.21	16.84
General expense / net banking income	57.20	58.95	52.25	64.80	58.02

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



PERSONNEL

	1998	1999	2000	2001	2002
Average number of employees	2 685	3 497	3 566	4 063	3 925
Net profit per employee	50 813	43 585	46 740	43 561	46 524



SHAREHOLDERS' MEMO

SHAREHOLDER BASE AS AT 31 DECEMBER 2002 (percentages of control)	
Almanij Group	76.12%
of which: - Almanij directly	61.34%
- other companies	14.78%
Other identified institutional shareholders	6.96%
Miscellaneous and public	16.92%

FINANCIAL DATA (end of the financial year)

	1998	1999	2000	2001	2002
Number of ordinary shares	15 418 640	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 share capital (in EUR million)	161.694	188.988	188.988	188.988	188.988
Net profit per share (in EUR) (non-consolidated)	6.66	6.62[1]	7.10	7.83	8.43
Payout ratio (non-consolidated) (dividends & directors' fees / profit to be allocated)	56.37%	65.38%	65.23%	65.30%	65.49%
Gross dividend (in EUR)	3.68	4.05	4.58	5.05	5.45
Net dividend (in EUR)	2.76	3.04	3.44	4.04	4.36
Net yield (ordinary shares) (based on share price as at 31.12 of the financial year)	2.06%	2.54%	2.95%	3.74%	4.29%
Highest price / lowest price (ordinary shares) (in EUR)	150.30 92.96	138.50 108.00	125.50 109.00	116.00 72.50	124.50 87.75
P/E (based on share price at 31.12 of the financial year) (ordinary shares)	20.11	18.06[1]	16.40	13.80	12.06
Ordinary share price as at 31.12 (in EUR)	133.86	119.50	116.50	108.00	101.63

[1] based on the weighted average number of shares

Ordinary shares and preference shares are listed on the Luxembourg stock exchange.

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.

The difference between the asset rights attached to each category of shares is reflected in the difference between the market price of preference and ordinary shares.

MANAGEMENT REPORTS OF THE BOARD OF DIRECTORS

The priorities of KBL Group European Private Bankers in 2002: risk management and cost control

1.1 RISK MANAGEMENT

1.1.1 Management of market risks linked to banking activities

After a thorough review of the management of risks linked to banking activities at both non-consolidated and consolidated levels, with a view to optimising current practice, in early 2002 KBL created a Group Risk Management department based at the parent company but with responsibility for the entire bank and group. The Group Risk Management department has now taken on all risk management activities previously carried out by individual operating units. The department is also responsible for developing these procedures and good progress was made in the course of the year. The objectives and responsibilities of the Group Risk Management department are set out in greater detail in section 2.1.1 of this report.

Securities activity: a prudent approach, with an emphasis on service

We take a prudent approach to business on the fixed-income and equity markets and place a particular emphasis on service. Our traders must adhere to risk limits established in advance and duly documented by the Group Risk Management department. Details of these limits are given in Annex 1 to this report.

Foreign exchange activity: clearly defined products and limits

As detailed in Annex 2 to this report, the Executive Committee defined the bank's forex lines, established precise internal limits and assigned specific powers to the different operators several years ago, in full compliance with the prudential regulations in force.

Activities exposed to interest rate risk

The bank's general policy is to establish and measure accurately the interest rate risk it is prepared to assume. To optimise management of this type of risk, the Group Risk Management department has drawn up a new methodology, which is described in Annex 3.

Liquidity risk

The bank is a net lender on the financial markets. Nonetheless, KBL permanently maintains a certain strategic level of liquidity.

As part of its methodology, the bank has carried out a number of *ad hoc* simulation exercises on liquidity levels using a method that will be automated in the course of 2003.

1.1.2 Operational risk

This type of risk is of course one of our main concerns. The bank is constantly striving to improve the efficiency of its internal audit system. In addition, the market regulators at both national and international level – the Commission for Supervision of Financial Services *(Commission de Surveillance des Services Financiers, or CSSF)*, CAD and Basel II – are in the process of drawing up specific regulations for operational risk in terms of minimum equity requirements.

In this context, the bank took the decision to assign the management of operational risk to its Group Insurance department, a new unit that reports directly to the Group Risk Management department. The bank's approach to operational risk management is described in detail in Annex 4.

1.1.3 Credit risk management

As the parent company of the group, in the course of last year KBL continued its drive to achieve lasting improvements in the management of credit risk, both on its own portfolio and at group level. To this end,

strictly predefined rules are applied throughout the group. All decisions relating to loans and advances are the responsibility of the Executive Committee. However, for certain types of operations within the pre-established limits, decision-making powers may be delegated to different bodies. In such cases, the decisions must still be approved by the Executive Committee.

When distributing duties and responsibilities in respect of its loan business, the group ensures that there is a clear distinction between the operators involved in each different area.

Credit operations must also comply with limits set by the Executive Committee for the concentration of risks by counterparty or country and also, in some cases, type of activity. These limits are monitored at consolidated level. The concentration of loans and advances by sector is also monitored.

A middle office independent of the marketing teams is responsible for monitoring these risks, on the basis of a review carried out at least once a year. Various risk indices are monitored on an on-going basis and may, in the event of deterioration, prompt the middle office to carry out more frequent reviews.

A more detailed description of the steps the bank has taken to optimise credit risk monitoring at group level is provided in Annex 5.

1.1.4 Legal risk and reputation risk

At KBL parent company level, legal risk is managed by the Legal department, whose main function is to provide legal guidance and advice. The various departments of the bank can consult the department's legal experts on any national or international legal matter. The lawyers may be consulted at any time by the marketing teams, besides providing assistance in examining and drawing up agreements, legal analysis on any planned operations, and advice on acquisitions, reviewing and updating the bank's standard agreements, and managing any legal disputes that may arise.

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 which the Legal department maintains regular contact.

The Legal department, in association with the Compliance Officer, is also responsible for managing reputation risk, in particular as part of the mission assigned to it under the group's anti-money laundering policy.

The Compliance Officer and Legal department have also worked together in the preparation of the internal regulations incorporated in the code of conduct and office charter.

1.1.5 Business Continuity Plan

With the assistance of an external consultant, KBL has drawn up a Business Continuity Plan designed to ensure the continued operation of its key activities in the event of a major catastrophe. The first phase of the plan will be operational in early 2003 and the second phase by the middle of the year.

1.2 COST CONTROL

1.2.1 Restructuring at group subsidiaries

The bank's subsidiaries will remember 2002 as a year of restructuring. Although voluntary rather than enforced, the changes made had been planned for some time: it is only natural that a period of major M&A activity should be followed by a period of consolidation. As part of the consolidation process, we took the decision to refocus the activities of our subsidiaries on the businesses that we have made the group's priorities, in particular Private Banking. We have been implementing a restructuring programme for several years at a number of group companies. However, the market turmoil of 2002 led us to step up the programme and extend it to all our subsidiaries. The main aim of our restructuring

drive has been to substantially reduce personnel and other general expenses.

The bank's restructuring drive is set to continue throughout 2003 and by the end of the year the programme should have enabled us to achieve the ambitious cost-cutting targets we have set for our subsidiaries. Essentially our aim is to reduce personnel expenses by around 30% and overall general expenses by around 15%.

In conformance with our prudent business philosophy, all restructuring costs were charged against 2002 profits.

1.2.2 Cost controls at the parent company

Cost control was a major concern not just at subsidiaries but also at the parent company in 2002.

In each department, managers have been asked to carry out an exhaustive analysis of their costs and any areas in which savings may be made without affecting quality of service, and to implement an action plan based on this analysis. Through IT system modifications, adjustments to working practices and greater synergies between the support activities of the three group companies active in Luxembourg, these plans should bring tangible results in the course of 2003.

Control of personnel expenses

As at 31 December 2002, the KBL group had a total pan-European payroll of 3,964 employees. Its subsidiaries accounted for 68% of this total – a reduction of more than 6% on the 4,228 as at 31 December 2001. This reduction is based on figures including the acquisition of Michaux Gestion and the Private Banking business of WestLB in Germany. They also incorporate the impact of the personal expenses reduction programmes implemented at the various group companies, and in particular at Brown, Shipley & Co. and Banco Urquijo.

As part of its cost–cutting programme and in particular the drive to reduce personnel expenses, the KBL group has offered all its staff in Luxembourg, at all levels, the option of taking early retirement or working part time. The bank's personnel representatives approved these measures, which were well received by staff. The workforce rationalisation measures, which will ultimately reduce the bank's workforce by the equivalent of around one hundred full-time employees, should fully bear fruit in 2003.

KBL Group European Private Bankers in Luxembourg

2.1 KBL'S MISSIONS

KBL Group European Private Bankers in Luxembourg has three missions:

- as parent company, it oversees all group audit activities ,
- it provides support to group companies,
- it carries out banking activities in Luxembourg.

KBL fulfils its role as parent company to its subsidiaries via a number of specially-created units: the Subsidiaries Secretariat, which is responsible for co-ordination; Group Audit, which assumes responsibility for audit functions; Group Risk Management, which monitors risk; Group Accounts and Audit Management, which provides accounts supervision to the entire KBL group and prepares the consolidated accounts; and the Group Compliance Officer, who is responsible for ensuring that the group respects business ethics and legal and regulatory provisions.

2.1.1 KBL as parent company

Subsidiaries Secretariat

The Subsidiaries Secretariat was created in 1997. Its mission is to co-ordinate 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 any new operating subsidiaries, co-ordinating the entire process from preliminary research through to the due diligence phase. It also oversees the work involved in disposing of existing holdings.

Group Audit

As the group's investments in Europe have grown, so KBL has stepped up its efforts to tailor internal audit structures to the requirement for constant monitoring of its subsidiaries, pursuant to the strictly defined framework set out in Circular No 98/143 on internal audit procedures issued by the Commission for Supervision of Financial Services (*Commission de Surveillance des Services Financiers*, or CSSF) in April 1998. The new internal audit structure was introduced at the end of 1998, at the same time as the KBL Audit Committee was created. The KBL Audit department is responsible for all audit functions relating to KBL's banking activities in Luxembourg, while the Information Technology Audit department assumes responsibility for all IT-related procedures. The total number of staff employed in the Group Audit and Information Audit departments has increased, in line with the expansion of the bank's sphere of consolidation, so ensuring that the teams are able to fulfil their new responsibilities in respect of the subsidiaries 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 department has four key missions : to establish a coherent plan for audit activity within the group; to either audit or review audits of all accounts covered by its remit (all the subsidiaries and KBL parent company); to ensure uniform audit methods are applied by all the group's audit bodies; and, to provide the management of the parent company and subsidiaries, on the basis of homogeneous reporting, with optimum visibility on the quality of their internal audit systems. The KBL Group Information Technology Audit department has the same responsibilities in respect of the subsidiaries in all IT-related matters.

The Group Audit department 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 audit authorities.

The bank's procedures were amended in 2002 to conform to the new IIA standards that took effect on 1 January 2002.

A single audit charter is in force throughout the group and all auditors adhere to the same working procedures. General guidelines for the organisation of internal audits have been distributed to all group companies, with a view to ensuring that appropriate internal audit principles are uniformly applied, in compliance with regulatory directives.

Larger subsidiaries have their own individual Audit Committees to deal with any major problems encountered in the external and internal audit processes. 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 before being forwarded to the external auditors and KBL's supervisory authorities.

(1) Institute of Internal Auditors

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

Departmental managers are also 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. The plan was implemented in our UK, Monaco and French subsidiaries and sub-subsidiaries in 2000 and extended to our Swiss and Spanish subsidiaries, Cawood Smithie (now part of Brown Shipley) and Banque Continentale du Luxembourg in 2001. In 2002, the IMAP focussed on the group's most recent acquisitions – Fairmount in the UK (completing coverage of all the UK subsidiaries absorbed into the Brown Shipley consolidated group in 2002), Fumagalli Soldan in Italy, and the three most recently-acquired French businesses, Europe Egide Finance, Fidef Ingénierie Patrimoniale and Michaux Gestion.

To complete the KBL group's consolidated control over all its subsidiaries, the IMAP has also been applied at KBL in its capacity as parent company. All group companies were therefore covered by the plan by the end of 2002, as planned, with the exception of our German subsidiary, where only the core audit aspects of the Programme have been implemented. The risk mapping exercise has been postponed until the new IT system is installed, to exploit the improvements to the internal audit process afforded by the IT upgrade.

Group Accounts and Management Audit

We are gradually moving towards common reporting standards for these support activities, which constitute essential audit and management tools for all international banking groups. The process will be given an additional nudge forward with the imminent introduction of IFRS. The Group Accounts department is responsible for monitoring the sphere of consolidation and carrying out prudential controls, including checking the consolidated capital adequacy ratio. The analysis produced by the department is regularly examined by the Executive Committee with a view to identifying significant trends in the various subsidiaries' contribution to the consolidated group. As co-ordinator of the group's budget, the Group Management Audit department is responsible for the overall monitoring of the profitability of group companies. While retaining sufficient flexibility to allow for local market specificities, the department is currently working to harmonise basic analysis structures throughout the group, beginning with the implementation of a standardised management information system. Starting with an accounts breakdown by business line, the system then draws on a number of common management indicators to produce an overview not just of profitability by business line but also of levels of activity and productivity. Use of these harmonised indicators will facilitate comparisons between group companies, enable the group to set targets according to best past performance and allow it to compare internal figures with external indices drawn, where available, from the best sources in the banking industry. The harmonisation drive is overseen by a Forum made up of the finance managers of the main group companies.

Group Risk Management

The new Group Risk Management department was created at the start of 2002 and has responsibilities at both bank and group level.

The Department consists of three units: the Risk Control Unit, the Risk Management Unit, and the Group Insurance Unit.

The Risk Control Unit is responsible for controlling market risks (transactions in money market instruments, securities and derivatives, and on the bank's portfolios) and credit risks (counterparty/country risk) at the parent company. Like all group subsidiaries, the Unit reports to the Risk Management Unit.

The Risk Management Unit acts as "group head" for KBL. In this capacity, the Unit has three specific missions: managing market risks at consolidated level; consolidated monitoring of counterparty and/or country risk; and overseeing implementation of the new Basel II Capital Accord at group level.

The Risk Management Unit's missions include developing methodologies and research for all risks that fall under its responsibility – market risk (interest rate risk, foreign exchange risk, price risk and market liquidity risk), credit risk (counterparty and country risk) and concentration risk (i.e. ensuring a healthy spread of risks across sectors).

The Unit also has an advisory role in all matters relating to Asset Management.

The Group Insurance department manages insurance for the bank and, through its International Programme, for the group. This involves determining, on the basis of risks identified, whether or not risks can be insured, finalising agreements and administering policies (though not making or collecting associated payments), and managing losses and damages (in conjunction with the Legal department and any other group company involved).

The Unit's responsibilities have recently been extended to include operational risk management (as discussed in section 1.1.1, on operational risk, and in Annex 4).

Finally, 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.

Role of the Group Compliance Officer

In creating the role of Compliance Officer, the KBL group was seeking to demonstrate its commitment to ensuring working practices throughout the group conform to national laws, industry regulations and professional codes of conduct. The Compliance Officer is responsible for ensuring that all laws, regulations and codes of conduct are respected in the parent company, with the help of the Legal department, and in the subsidiaries, in conjunction with local Compliance Officers. The Compliance Officer is responsible for ensuring that the group carries out its activities in accordance with ethical business practices. It also provides support to all employees seeking advice on how codes of conduct should be interpreted or any ethical dilemmas encountered in dealings with clients or professional counterparties.

2.1.2 Role of KBL in providing support services

The KBL parent company in Luxembourg provides support services to group subsidiaries with the aim of optimising use of group resources, harnessing synergies between subsidiaries and parent company, and, wherever possible, developing economies of scale.

Investment Research

Private Banking remains the core business and development priority for the KBL group. To better support our sales and marketing teams, we have now centralised all research and other activities related to the development of investment strategies in Luxembourg. These services are provided by the Investment Research department of KTL, which focuses on two complementary areas.

The first of these areas is the provision of macroeconomic research and research on the interest rate and foreign exchange markets. This research is an essential tool in the definition of the diversified investment strategies applied to managed accounts. The regular publication and group-wide distribution of documentation explaining our investment strategies is another key part of the department's work, as is the continuous monitoring of potential investment opportunities worldwide.

The department's second focus is the selection of securities and construction of securities portfolios in line with our management strategies.

Our investment universe encompasses around 250 stocks which we track on a systematic and regular basis. Analysts use in-house valuation models to calculate the intrinsic value of individual stocks.

Our Luxembourg-based team of analysts works closely with the KBL group's various research units and with the institutional and private fund and portfolio managers employed at other KBL subsidiaries, who are therefore closer to their local markets. Brown Shipley, Banco Urquijo and, Merck Finck especially, all have in-house teams of analysts with proven track records. Expanding the department's activities to include financial modelling to calculate the intrinsic value of financial assets is one of our top priorities for the current year.

Development of pan-European range of investment funds

Most UCI distributed by KBL are currently registered – and can therefore be actively marketed in – a total of seven European countries. Registering our UCI in different countries was one of our main focuses in 2002 and will remain a priority in 2003, as we continue to extend our geographical coverage and the range of products and services we are able to offer our private and professional clients.

The new European UCITS III directives passed in late 2001 to establish a legal framework for the investment funds market should open up new opportunities for the cross-border marketing of certain UCI, including funds of funds. KBL naturally intends to take advantage of these opportunities, especially since Luxembourg was the first EU state to transpose the directives into its national legislation. We discuss the new legislation, which took effect in January 2003, and its implications, later in this report.

We added six new sub-funds to our already comprehensive range in the course of 2002 and are now able to offer our clients one of the most extensive ranges of UCI on the market, diversified by asset class, geographical and sector coverage, and management methodology.

The launch of the KB Lux Equity Fund - US Top 30, a fund which seeks to replicate the performance of the Dow Jones Industrial Average index, increased our coverage of the US market and also our range of index-based funds. The KB Lux Equity Fund - Switzerland means we can now offer clients exposure to the Swiss stock market via a fund denominated in Swiss francs. We also added two equity UCI to our range of actively managed funds of funds – the KB Lux Key Fund - Russia and the KB Lux Key Fund - Europe.

Our range of bond funds was strengthened with the launch of two new products, both providing new diversification opportunities. Our range of high-yield corporate bond funds was supplemented by the KB Lux Key Fund - Global High Yield fund of funds, plus a Hungarian forint-denominated bond sub-fund – the latest in our line of sub-funds playing the EU convergence theme that has already proved hugely successful. Our expertise in this area is reflected in the very strong competitive positioning achieved by our range of bond funds. In 2002, 78% of our sub-funds were ranked in the top two quartiles of the universe of bond funds registered in Luxembourg and tracked by Standard & Poor's Fund Services.

It is not therefore surprising that, in the February 2003 European Fund Awards, KBL was judged best bond fund promoter, all categories combined, and the KB Lux Bond Fund - Short Invest EUR and Short Invest USD sub-funds won "Fund of the Year 2002" in their respective categories. In Italy, the KB Lux Bond Fund - Interbond subsequently won the Standard & Poor's/Perla Finanza award for the best five-year performance by a global fixed-income fund denominated in euros.

Lastly, the international financial press, including the Wall Street Journal, Financial Times and Handelsblatt, regularly comment on our bond funds' strong performances in their categories. In addition to promoting its own range of funds, KBL is also constantly looking to unleash synergies and share knowledge with other UCI promoters and managers forming part of our group. We have made this strategy one of our priorities for 2003.

Dealing room centralisation and coordination

Alongside our traditional operations on the international financial markets, the key objective of our market activities is to support the development of our Private Banking and Asset Management businesses, both at parent company and subsidiary level.

The parent company's dealing room in Luxembourg, which is the group's largest, has expanded its co-ordination role in respect of our subsidiaries and also acts as their privileged counterparty. However, coordination does not mean one-way relationships: Banco Urquijo, Brown Shipley, KBL France and Merck Finck all carry out specific regional activities and are looking to develop regional business, drawing on their local market expertise. These subsidiaries make their skills and expertise available to other group companies via the Luxembourg dealing room, which has a centralising role.

By centralising most group transactions, the bank improves profitability and tightens its control over market risks by creating an integrated system for monitoring positions and liquidity flows.

Guided by our prudent business philosophy, we have also slimmed down the management of banking lines of credit. This is also now centralised at the Luxembourg head office, with banking lines shared according to opportunities available on the markets in which the different group companies are active.

Automation of trading and brokerage processes

We continue to incorporate the latest technologies to further automate our brokerage activities. Advances introduced last year have improved real-time position control, increased the speed and security of transaction execution and reduced costs. We have also optimised our automated transmission system to guarantee rapid order execution for all KBL clients.

We also continue to improve automated facilities for trading in fixed-income products. Our subsidiaries and industry counterparties now have remote access to our trading platform and to the pricing pages published by traders, enabling them to execute, via a now entirely-automated process, buy and sell transactions within the pre-established limits.

Group Corporate Finance at the service of owner-managed businesses

Directly complementing its main business of Private Banking, the KBL group also offers corporate finance advisory services (M&A, company restructuring and IPOs) to owner-managed companies.

Having established in-house Corporate Finance teams at its main subsidiaries (Banco Urquijo, Brown Shipley, KBL France and Merck Finck), the group continues to extend and adapt its services. Meanwhile, the Corporate Finance and Private Equity unit based at the parent company in Luxembourg has continued to promote and support group activities, acting as co-ordinator and platform for communication between the various local teams, especially in the area of cross-border mergers and acquisitions.

Use of Group Intranet for intra-group organisation

The rollout of the KBL group private network is now almost complete. This high-performance, secure network provides interconnections between all group subsidiaries. Throughout the group, we are seeing growing use of the network to exchange all kinds of information, mainly by electronic messaging, to share banking applications, and to access the group intranet site and subsidiary sites.

In 2002 we embarked on a drive to give all our subsidiaries rapid, easy access to information on organisational matters issued by the parent company but likely to affect their own internal organisation. This project should be successfully concluded in the course of this year.

Information available includes any legal and regulatory texts published in Luxembourg that may impact the organisation of our subsidiaries, organisational principles laid down by the parent company and applicable to the whole group, and intra-group procedures setting out respective responsibilities in relations between parent company and subsidiaries.

Centralisation of Global Custody activities

Thanks to our experience as a custodian bank for UCI, we have built up considerable expertise in this area. To harness synergies and exploit economies of scale, we are now putting this expertise at the service of all group subsidiaries and should therefore be able to offer value-added services to our clients.

Rollout of Group Information Technology systems via Globus banking software

Following the installation of Globus integrated banking software at Brown Shipley and Kredietbank (Suisse), in 2002 the rollout continued at KBL France and its subsidiary Kempf. All securities files, client records and accounts information were transferred to this platform in the course of the year, although the specific requirements of the French market (tax treatment, particulars of bank accounts, etc.) necessitated certain additions to the programme. We have chosen to adopt a company-wide approach, as this will enable KBL France to operate on the Luxembourg technical platform, thereby tightening synergies within the group.

A common platform of this kind is a major unifying factor for the group, within the framework of our federal model.

2.1.3 KBL's banking activities in Luxembourg

Commercial activities

Private clients

Recent drives to increase the professionalism of our advisers and personalise our services even more have proved a sound investment.

The loyalty and confidence our clients have placed in us are the clearest evidence of our success.

The first measure we should highlight is the implementation of our policy of personal welcome. This involves the bank taking care to ensure each client receives individual attention from an Account Officer. Portfolio analysis and choice of strategy are carried out in consultation with the client based on their chosen risk profile. We see this as a vital part of ensuring client satisfaction and loyalty.

We have also equipped our sales staff with continually upgraded IT tools that mean they are now able to present all clients, of whatever level, with an analytic view of their portfolio. This ensures that clients can take investment decisions in the certainty that they are fully informed.

We also support our advisers with ongoing training and information tools on financial and market issues. As well as updates by the strategic investment committees focusing on the macro-economic outlook, we hold weekly meetings with our financial analysts. Lastly, every morning, an analyst outlines the state of the markets to all our advisers.

With these advantages in hand, we are ready to exploit any upturn in the markets and, with the uncertainties surrounding the European Union's proposed savings tax directive now lifted, can decisively position ourselves as Private Bankers.

Corporate Agency: at the service of Luxembourg clients

Our Corporate Agency was created by the parent company in 2000 to bring continuity and centralisation to the group's sales and marketing to Luxembourg corporates, professionals and retailers and continued its successful development.

The Agency aims to ensure that this type of customer receives high-quality, personalised service and, in the course of the year, assumed responsibility for commercial relationships with existing clients previously served by other departments.

Corporate Banking and International Loans

Credit operations fell by 4.32% in 2002 following a 3 % fall in 2001 at consolidated level. The main reason for this decline was the high volume of SAS/FRNs maturing in 2002. The second was the dollar's weakness against the euro. The last was our policy of limiting lending activities at our subsidiaries.

Our portfolio remained remarkably robust in 2002, despite the unhealthy state of the world economy, financial and accounting scandals, and a stream of profit warnings leading to a wave of corporate credit downgrades. This underscores the validity of our policy of investing based on meticulous risk selectivity. Our consolidated loss ratio on the credit portfolio was just 0.15% in 2002, one of the best in the market, and has averaged 0.14% over the last four years.

The international loan business is, as in the past, concentrated in the parent bank and in our Irish subsidiary, KBL Bank Ireland (KBLBI), which in August 2002 absorbed the group's other Irish company, Contilux Finance Ireland. New international loans are mainly FRNs (Floating Rate Notes) and SAS (Synthetic Asset Swaps) by KBL and KBLBI and syndicated loans by KBL.

Our Dublin subsidiary is responsible for all additions to the portfolio of securitisation transactions, all senior tranches with ratings of AAA or AA+. Most of KBLBI's securitisation portfolio is made up of residential mortgage backed securities.

By the nature of the product, securitisations offer an excellent diversification of risks assumed. This class of assets also offers better margins than direct investments in credits with equivalent ratings.

The parent bank has also for many years been active in the field of asset-based loan operations. These include ship and aircraft financing, and funding films and printing businesses All investments are made within sharply defined risk criteria and can represent only a very limited share of capital. These loans are backed by specific guarantees and offer wider margins than traditional loans, but with limited risk.

Other services

Financial agency services

In 2002 we were the third-ranking listing agent on the Luxembourg stock exchange with a market share of 15.3%. Thus we remain one of the chief players on the Luxembourg financial services market. We are recognised as providing a high-quality service for both stand-alone issues and issues through Medium-Term Notes. As part of our Corporate Trust & Agencies business, we also act as financial agent acting on behalf of the issuer and providing services for the life of issues of bonds, warrants, equities or funds.

Operating services

We have received an influx of new capital from our professional clients deposited in Global Custody. This capital comes not just from our UCI clients but also from life assurance companies and our network of European subsidiaries.

We responded to the rising popularity of unit-linked life assurance products by adapting our custodian services to meet the specific needs of life assurance companies using us as custodian.

Our securities lending business produced good results given the state of the financial markets. Our institutional and professional clients continue to appreciate the value added by this market activity, which forms an integral part of our Global Custodian business.

Regarding the new US regulations concerning withholding tax for 2002, our first pre-audit of KBL's responsibilities as Qualified Intermediary responsible for the deduction of withholding tax at source produced satisfactory results.

As regards Corporate Actions, the large number of company acquisitions, takeovers and mergers seen in 2001 was reflected in a record number of corporate actions, cementing the trend evidenced in previous years.

The services provided by KBL as a common custodian for the clearing systems also continued to grow strongly during 2002.

Despite the financial markets' failure to recover as expected, activity in our various back offices has strengthened substantially, mainly in the field of corporate actions on units in investment funds. The offices also handled an increased volume of transactions processed and accounts settled.

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

Mixed results for Luxembourg-registered UCI

The persistently depressed state of the equities markets weighed on the value of assets held by Undertakings for Collective Investment. For the first time ever, the total net asset value was lower than at the end of the previous year. Despite this situation, we are convinced the development potential of the investment funds industry remains intact. We see this clearly in the rising number of UCI and sub-funds launched in 2002 and in the solidity of net investment, which was equivalent to a capital injection of around EUR 57 billion.

New Luxembourg UCITS law

The national law enacting the two new European directives known as UCITS III was published in the Luxembourg official journal on 20 December 2002 and took effect on 1 January 2003. The Grand Duchy of Luxembourg thus became the first EU member state to have transposed the whole of the new directives on undertakings for collective investment in transferable securities (UCITS) into its domestic law. This again underscores Luxembourg's commitment to always offering one of the most up-to-date regulatory environments in this sector, which is a boost to the national economy considerably. As KBL is a major player in the Luxembourg market, this positive environment opens up interesting future development possibilities for the bank.

Assets under KBL management

The reduction in total assets held by investment funds on the Luxembourg market was reflected in KBL's figures. Assets managed by KBL at the end of December 2002 had a total value of EUR 25.077 million, a reduction on year-end 2001 in line with the rest of the sector. The UCI marketing arm acquired over 60 new mandates in 2002, a net increase of 8.6% – after deductions for funds that were wound up – and double the average for the Luxembourg market. If 2001 was the year of alternative funds of funds, 2002 confirmed the success of protected capital funds, which made up more than 30% of the new UCI/sub-funds launched. That said, alternative funds maintained their assets at over EUR 3 billion, nearly 12% of all assets administered by KBL.

In the area of investment fund industry services, KBL offers all the usual functions provided by a custodian bank, while its subsidiary KTL is responsible for central UCI administration. Since 1998, KTL has subcontracted portfolio accounting and registrar services to a specialist company, European Fund Administration (EFA), in which KBL has a 39% shareholding.

In 2002 EFA had more than 1,000 sub-funds under administration for the first time, ending the year with 1,080, a 12% rise on year-end 2001. Net assets administered by EFA grew by 1.5% to EUR 69 billion. These results keep EFA in the first rank of service providers to third party investment fund promoters in Luxembourg.

Proprietary asset management

Private Equity

The KBL group has been active in Development Capital and Venture Capital fund investment for more than 15 years. Its solid experience in the industry has allowed it to draw on the lessons on cyclical risk learnt in previous economic cycles.

Rigorous selection of the fund managers with whom the group does business and our policy of diversification both by sector and vintage allowed us to ride out a particularly unfavourable climate for private equity in 2002. The group continues to monitor all holdings very attentively, and to work closely with fund managers, and to adjust the valuation of its investments to reflect market conditions.

Market activities

Targets achieved despite adverse market conditions

The world's largest stock markets were highly volatile in 2002 and fell for the third year running. Generally investors continue to steer clear of equities markets. We were nonetheless able to achieve results in line with our targets by adapting client portfolios to the new trading conditions and by prudent and selective positioning in quality products.

Brokerage activity

Our experience in handling fund units is internationally recognised and we are one of the leading players in this field in the Luxembourg stock market. We act as recognised intermediary in the trading of third-party funds for professional clients.

Order automation

We completely revamped our computerised system for securities sales and purchase, a tool essential to our trading business, in the course of 2002. This entailed implementing straight-through-processing, which automates all stages of an equities order, cutting down time spent in manual processing and so speeding up order processing in general. This year we are focussing on extending our automated system to all communications with brokers to whom we pass client orders and to back-office processing functions for equities and the group's UCI.

New issues

With interest rates historically low and many companies seeing their ratings downgraded, credit spreads have widened, causing liquidity to dry up and fuelling a flight to higher-rated paper.

As a result, the market for new corporate issues deteriorated sharply and many banks chose to focus their strategies and recommendations on sovereign and/or supranational debt. But despite this contraction in the market KBL participated in 257 new issues.

Sales

Our sales business has expanded significantly in the current highly volatile climate, thanks to a vast range of issues in both classic currencies and those of countries set for EU accession. We were able to take advantage thanks to our automated trading platform, which we are offering to a growing number of institutional clients.

Treasury management

We take an active approach to management of our own treasury balances. This means paying close attention to the quality of our banking counterparties and ensuring they are geographically diversified.

We would stress that the group remains a net lender to the market. Much of any net cash position we may have is reinvested in a portfolio of Treasury notes combining sovereign risk with high liquidity as well as with premium banking counterparties.

Internal support activities

IT

Strategic drive to optimise our information systems successfully concluded

The major project to upgrade our technological resources begun in 2000 was successfully concluded last year. We have now converted all our databases to the DB2 platform, one of the most widely used market standards. The conversion will allow us to take advantage of new technologies while retaining the wealth of functionality in our existing banking systems.

Modern functionality in a proven IT architecture

After major investments in IT over the past four years, 54% of installed applications have now been completely renewed. We expect this figure to rise to 88% by 2005. Investment has been concentrated on the dealing room, where we have introduced straight-through-processing to automate the different stages of equity order execution, and front and back office currency order and deposits processing. In the near future straight-through-processing will be extended to interest rate and currency swaps.

The other main area of investment was the software and hardware used by our client relations staff. These systems have been enhanced with new functions allowing client relations employees to place stock market orders directly and print clients' asset statements online. The system also gives access to a database of qualitative information bringing a more personalised element to client relationship management.

New international standards introduced as early as possible.

A new Swift interbank messaging service was successfully installed in 2002, enabling us to meet our 15 November 2002 deadline for implementation of the new Swift 15022 message standard for corporate actions.

In line with market plans, our systems have been adapted to conform to the new international IBAN account format allowing straight-through-processing of payments.

Accounts and Management Audit

In June 2002 the European Parliament and Council of the European Union passed regulations requiring listed European companies to prepare their consolidated accounts in accordance with IAS/IFRS (International Financial Reporting Standards) from 2005, the aim being to enhance comparability between company accounts. In step with this change in regulations, our parent group Almanij has decided to publish its consolidated accounts in accordance with these international standards from 2004.

As IFRS require companies to provide comparative figures for the preceding year, the bank must be able to prepare IFRS compliant accounts for 2003.

With this in mind, the Accounts and Management Audit teams have made considerable efforts in training and analysing the regulations and, in 2002, undertook the adaptation of the bank's accounting systems.

2002 also saw the launch of an ambitious programme designed to monitor the profitability of each of the bank's business lines. Work focused on defining assumptions for the allocation of revenues and costs between the different activities, and on specifying the technical tools that would be required to generate such information regularly. These analysis tools should be introduced by the end of 2003. The aim is to prepare the 2004 budget on the basis of the new segmentation, as required under IFRS 14.

Human Resources Management

Alongside the group's cost-cutting drive, the year's biggest development on this front was the introduction of an employee stock options plan.

As of 2003, KBL, the Luxembourg bank, is offering all its employees the chance to become shareholders by participating in a stock option plan. Employees are of course free to subscribe or not. Key aims of the new system are to integrate employees into the common effort and hence the profit from their efforts and also to make the bank more attractive to future employees. If successful, the plan may be repeated in future years.

2.2 KREDIETRUST LUXEMBOURG (KTL)

Continuing growth in discretionary management for private clients

The strategy of encouraging private banking clients to adopt KTL as managers that we have followed for many years now has been successful largely thanks to the efforts of the advisers in KBL's Private Banking service. The number of portfolios under discretionary management has grown again over the year.

In 2002 we again continued to develop management by UCI (portfolios invested according to our strategies through the bank's UCI), and these now make up most of the portfolios managed by KTL.

Finally, our traditional policy of prudence, supported by a historical specialisation in the bond market, proved particularly successful in a year marked by sharply volatile equity markets. Our prudent approach to risk management left us well positioned in comparison to our rivals. Our bond funds won three European Fund Awards for the best-performing European funds of 2002. We also achieved very good results in our funds of EU candidate countries' currencies, which profited from favourable convergence effects.

Year of consolidation for funds managed by KTL

Total assets in all funds managed by KTL as at 31 December 2002 were down by 13.4% on 28 December 2001. This decline basically reflected the wider fall seen in the equity markets.

The mixed performance of equities and even balanced funds was nonetheless partly offset by notable gains by the bond and money market funds in our product range. Other funds, basically traditional funds of funds and funds biased towards neutral or alternative strategies, rose by 5.3%, thanks to the launch of new sub-funds, notably the Global High Yield in mid-2002.

No change in Institutional Clients

As our priority is to provide the best possible service to our existing clients, we continued the improvements in reporting, measuring and controlling risk undertaken by managers and synergies with the fund management and research divisions. This helped increase clients' confidence in us and, by extension, the funds they entrust to us for management.

Also, to strengthen our presence in the insurance and reinsurance markets, the KBL group significantly increased its holding in the reinsurance company Gecalux S.A.. This stake allows us to envisage a fruitful cooperation with this company and opens new opportunities in terms of mandates.

Finally, on the institutional management front, we strengthened the Institutional Sales department responsible for promoting KBL funds to an exclusively institutional clientele.

2.3 BANQUE CONTINENTALE DU LUXEMBOURG (BCL)

This year BCL continued its efforts to bring down general costs. Our Luxembourg subsidiary reduced its staff by around 15% over the year. The drive will be continued in 2003 and should result in total personnel reductions of around 30%.

Staff cuts have been made possible mainly by developing economies of scale with KBL, since in 2002 our Luxembourg subsidiary farmed out a number of support functions to the parent company.

Finally, BCL's Irish subsidiary was merged with our subsidiary KBL Bank Ireland in 2002.

KBL Group European Private Bankers in Europe

GREAT BRITAIN

Brown, Shipley & Co.

At the end of 2001 Brown Shipley acquired Fairmount Group, a specialist in personal pension plan advice and management. This operation marked the end of a long period of growth via acquisitions for Brown Shipley. Our UK subsidiary now offers a fully comprehensive range of services and is established as a true "Private Banker" operating under a single banner.

In 2002 our UK subsidiary concluded the integration of the various companies acquired in previous years. The first two businesses to be transferred to Brown Shipley were Fairmount Stockbrokers Ltd and Cawood Smithie (Asset Management).

Next, with a view to trimming its back-office costs, the subsidiary successfully established a single back office now serving the entire group in the UK from Cawood Smithie's former head office in Harrogate. This choice of location has helped the company escape the pressures of the London labour market and enabled it to draw on Cawood Smithie's recognised experience in this field. The new shared back-office became fully operational at the end of summer 2002.

Brown Shipley further scaled down its lending activities, continuing the voluntary reduction begun in the second half of 2000. By the end of the year, however, it had reduced its credit portfolio by 38%. The Brown Shipley portfolio now accounts for less than 3% of the group's consolidated lending activities and is concentrated on a few select types of lending operations and loans complementing its private banking and corporate finance activities.

Brown Shipley concluded the process of integrating the companies acquired in recent years in early autumn, marking the occasion with the implementation of a new organisational structure that better reflects the integration of the different services offered to private clients.

The rationalisation process was accompanied by a programme of general cost and headcount reductions, including a redundancy plan that provided for the departure of 80 staff between October 2002 and February 2003 and had been fully provisioned in the 2002 accounts. The redundancy programme was supplemented by various other measures designed to optimise the use of human resources and reduce other general expenses that should bear fruit in the course of 2003. The effects of these measures combined should reduce the subsidiary's headcount by 25% and trim general expenses by 20% by the end of 2003.

Once this integration and restructuring plan is concluded, our UK subsidiary should be ready to enter another period of expansion.

SPAIN

Banco Urquijo

A similar restructuring plan had been envisaged for our Spanish subsidiary ever since Banco Urquijo was integrated within the KBL group in 1998. But we were not able to implement the plan at the time partly because Banco Urquijo had just concluded a series of major internal reorganisations and partly because the priority then was to integrate the bank within the KBL group.

Banco Urquijo therefore launched the first phase of its restructuring plan at the end of 2001, offering certain staff the possibility of taking early retirement from 2002 onwards. This first restructuring phase was fully provisioned in the 2001 accounts. The first departures under the plan took place in 2002, reducing Banco Urquijo's total headcount by 170 by the end of the year.

Banco Urquijo also took the decision to outsource its back-office and various support functions in 2002, albeit while being careful to ensure that the quality of its audit systems and front-office client services was unaffected. This is quite possible in Spain (i.e. outsourcing without any reduction in service quality), as the subcontracting market is extremely diverse and, by extension, very competitive.

The decision to outsource its back-office activities and various other support functions should result in Banco Urquijo transferring around 100 staff to its new service provider in the course of 2003.

In addition, whilst the first phase of its workforce reduction (early retirement) plan was underway in 2002, our Spanish subsidiary was already planning a second phase involving the departure of a further 125 staff in 2003.

The cost of this second phase of the workforce reduction programme plus the cost of transferring staff to the new third-party service provided were fully provisioned in the 2002 accounts.

Once implemented, this combination of measures should have reduced our Spanish subsidiary's headcount by 35% and trimmed total general expenses by 20% over the year.

GERMANY

Merck Finck & Co, Privatbankiers

As part of its drive to expand its core business of wealth management and attain critical mass in this segment, over the past few years Merck Finck has been keeping an eye out for acquisition opportunities in the German banking market.

These efforts paid off in March 2002 when it acquired WestLB's Private Banking business in Germany. This acquisition not only significantly strengthened our subsidiary's existing coverage but also opened doors to new regional markets, particularly in Rhineland-Westphalia.

The strategic refocus begun with its integration into the KBL group also led Merck Finck to withdraw from Corporate Banking (i.e. business finance) in 2002. Having been pared down considerably in recent years, this business will henceforth be limited simply to managing existing loans until they mature.

The subsidiary's support functions were enhanced by the ongoing rollout of a new integrated IT platform, which should, for the most part, be concluded by the middle of 2003.

The still to be concluded implementation of this new integrated platform is an essential element of the far-reaching restructuring programme planned for the German subsidiary, that is intended to bring significant savings in general expenses. The programme began in October 2002 with the announcement of a redundancy scheme, effective immediately. More than half the staff cuts envisaged under the plan had been made by the end of the year and the scheme will continue throughout 2003. In parallel with these workforce reductions and the rollout of the new integrated IT platform, the

subsidiary continues to reorganise and to reduce other general expenses. These measures combined should result in a 30% headcount reduction and a 15% year-on-year decline in general expenses by the end of 2003. The redundancy plan was fully provisioned in the 2002 accounts. Despite the important internal reorganisation underway, the subsidiary remains on the look out for further external growth opportunities that will help it achieve critical mass in Germany.

FRANCE

KBL France

KBL France made further acquisitions in 2002 with the aim of attaining critical mass. In May 2002 the subsidiary acquired 100% of Michaux Gestion SA, one of the largest management companies in the Rhône-Alpes region. As a long-established family-run business, Michaux Gestion SA fits in well with KBL France's growth strategy, which is to cover all the different regions in France by forging alliances with well-regarded companies with a strong brand image in their particular geographical region.

To tighten its focus on private banking, KBL France launched a workforce restructuring programme in 2001 that resulted in around 30 staff members leaving the group.

Although these measures were voluntary, the difficult economic environment of 2002 coupled with the general sluggishness of the market took their toll on the subsidiary and most of its sub-subsidiaries, largely because KBL France has yet to complete its expansion, having not yet attained critical mass, and is therefore yet to enjoy the full benefits of the integration of its own with its subsidiaries' activities.

The subsidiary's management team was reshuffled in the second half of 2002 and for the past few months the new team has been working to harness greater synergies within the KBL France group and to further its regional expansion. The new management's challenge will be facilitated by the group's new integrated IT platform, which has already been installed at Brown Shipley and Kredietbank (Suisse) and should be operational at KBL France by end-2003.

ITALY

Fumagalli Soldan SIM spa

We bought our Milan-based subsidiary in November 2001, making it our most recently-acquired directly-owned subsidiary. However, the new subsidiary has also been badly hit by current market fragility. Due to its historical origin, the subsidiary is active in both securities brokerage and wealth management and has therefore yet to reach critical mass in either of the two areas.

Fumagalli Soldan is a small company with around 50 employees and is the group's first foray into the Italian market. At end-2002 we began necessary procedures to obtain a banking licence for our subsidiary, which, once obtained, will be an invaluable aid to Fumagalli Soldan in fulfilling the mission we have entrusted it in Italy.

Meanwhile, Fumagalli Soldan is actively assisting us in the search for new targets to expand our subsidiary by acquisitions. Several candidates were considered in 2002 and others are currently under review. We are optimistic that one of these projects will be brought to fruition in 2003, which remains our main objective for the Italian market.

PRINCIPALITY OF MONACO

KB Luxembourg (Monaco)

Our Monaco subsidiary continued to strengthen its sales force and develop its client base. However, to safeguard its future, KBL Monaco has also began a staff restructuring plan, which should bear fruit in 2003.

SWITZERLAND

Kredietbank (Suisse)

In the past, we were present in Switzerland under several banners – KBS Lugano, KBS Genève and BLP Banque de Portefeuilles. This was a reflection of the various acquisitions we had made.

In April 2002, however, KBS Lugano merged with KBS Genève, enabling the group to buy out the remaining KBS Lugano shares held by minority shareholders. BLP, meanwhile, is due to be merged with KBS Genève in the course of 2003 and procedures are already well underway. Once this process is complete, we will have just one bank in Switzerland serving all the major cantons, including Zurich, where we opened a city branch in 2002.

In addition, the Information Processing Centre (Centre de Traitement de l'Information or CTI) set up to group together the main information technology and back-office functions of our Swiss companies, became operational on 1 January 2002. As envisaged, the centre has brought the group considerable economies of scale. This, coupled with the rationalisation of legal structures, enabled us to reduce staff levels by 20% in 2002. As a result, the Swiss subsidiary now has a high level of efficiency and performance. The headcount should be cut by a further 10% in 2003, bringing the subsidiary up to its optimum level.

General balance sheet development

As at end-2002 the value of the total balance sheet had risen by 1.8% to EUR 23.3 billion.

Interbank activities, the bank's second main source of financing and main application of funds, contracted, while investment in treasury and other short-term bills substantially increased. The bank was therefore able to maintain a very comfortable cash position.

Participating interests, interests in associated undertakings and stock portfolio

The value of the "Interests in associated undertakings" item was seemingly unchanged but this stability in fact masked a number of counterbalancing elements.

On the one hand, the bank has now consolidated its investments and direct stakes in its network of subsidiaries, including Banco Urquijo, Kredietbank (Suisse) and Brown, Shipley & Co.

On the other hand, the growing strength of the euro is having a very negative forex impact on this item. Meanwhile, the sale of shares in Sicavs has reduced the value of our stock portfolio.

Holding and acquisition of treasury stock

KBL was forced to make market purchases and sales of own shares (both ordinary and preference) in 2002, in response to market liquidity requirements. These shares were all acquired and sold at the price prevailing on the Luxembourg stock exchange.

After these transactions, the balance of ordinary shares in our portfolio as at 31 December 2002 was 4,075 units lower, and the balance of preference shares 4,432 units lower.

Thus, at the close of 2002, our portfolio contained 236 ordinary shares and 669 preference shares – a total of 905 shares representing 0.0045% of total shares outstanding. The par value of these shares is EUR 9.3.

We take these positions solely so that we are in a position to respond to supply and demand conditions on the Luxembourg stock exchange and over the counter, thus ensuring adequate liquidity and facilitating the execution of client orders. These positions are therefore taken on a very short-term basis only and are constantly fluctuating.

Contrasting movements in deposits

On the liabilities side, amounts owed to credit institutions fell – a natural consequence of the rise in cash at banks shown on the assets side. The euro's rise on the foreign exchange market also contributed to this decline. Overall the bank maintains its position as a net lender on the market.

Amounts owed to customers rose, largely due to increased deposits from institutional investors.

Increase in shareholders' equity

Overall, shareholders' equity and comparable outstandings before allocation of profit rose by EUR 17 million even though certain subordinated debt issues matured during the year.

As at 31 December 2002, before allocation of profit, the value of non-consolidated shareholders' equity used to calculate the basic equity capital adequacy ratio was EUR 1.73 billion, 5% higher than at the end of 2001. The non-consolidated capital adequacy ratio also rose, edging up from 23.6% in 2001 to 28.5%. Return on equity (ROE) rose slightly, reaching an excellent 16%, up from 15.6% at end-2001.

Since we are due to propose a 2002 dividend payout ratio of 65.5% at the forthcoming Annual General Meeting, shareholders' equity after allocation of profit will rise further, by EUR 59.2 million.

Fall in provisions for risks and charges

The reduction in provisions for tax liabilities following the receipt of our final tax statement for previous years, was only partially offset by an increase in other provisions, due partly to an exceptional EUR 38.9 million provisioning charge to cover early retirements.

Higher net interest income with commissions stable

The reduction in interest and similar income was more than offset by the decrease in interest paid and other similar expenses. As a result, the bank's net interest margin rose by 4.5%. While respecting the limits of our authorised lines of credit, our Treasury department took full advantage of the lower interest rate scenario.

In addition, despite the difficult market climate, the bank was able to sustain net commission levels.

Sharp increase in income from securities

Income from securities was boosted by the higher dividends received from participating interests.

Income from financial operations and other operating income were also higher, in this case thanks to capital gains realised in the management of our portfolios.

Control over general costs and other operating expenses

We continued to voluntarily step up the process of upgrading our IT applications in 2002, so significantly increasing IT development costs. These were charged against 2002 income in full. However, by keeping a close eye on running costs, we were able to partially offset these additional expenses, which are essentially investments, through savings in other operating costs. Overall, these two items together were just 6.6% higher, a rise substantially lower than the rise in the bank's income.

The cost-cutting drive begun in 2001 continued in 2002. The measures taken have already enhanced the productivity of the bank's resources. The drive will continue and should bear its full fruits this year.

In line with its traditionally prudent approach, the bank continued to make top-ups to both general and specific provisions.

The bank has provided for all unrealised capital losses, relative to current market prices, on the shares in its portfolio. Against a generally unfavourable economic backdrop, management of its loan portfolio was also very efficient. As a result, only a small amount of new provisions were needed – a testament to the bank's extremely attentive risk monitoring and traditionally prudent lending policy.

7.7% growth in profit

Despite a stubbornly sluggish world economy, the bank reported a 7.7% rise in profit.

Annex 1 - Securities activity

On the bond markets, which are very much OTC markets, our know-how has long been respected, making us not only the intermediary 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 counterparties. We also provide intermediary services to regional counterparties active in private banking and asset management.

In this, our core business, the assumption of risk, where applicable, is subject to predetermined limits and restricted to certain activities and products, which are defined in advance and duly documented by the Group Risk Management department. In principle, risk positions are taken mainly to support our client business, and therefore only on issues that we know, from past experience, are in the client's interest.

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

Orders above a certain size are handled, on the request of those submitting 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 counterparties are duly authorised and selected on the basis of administrative and reporting performance criteria, amongst other factors. Brokerage fees and commissions are agreed with each counterparty in advance.

Our approach to taking proprietary positions is a conservative one and we engage in this as a parallel activity. Such activities are subject to strict rules and are monitored directly by both dealing room managers and the bank's general management team, to ensure compliance with the rules established by the Group Risk Management department.

Annex 2 - Forex activity

With the passage of time, to ensure that our various forex activities are more efficient, to give currency dealers greater flexibility in position management, and to facilitate back-office controls, we have made certain changes to these lines. Unit sums per transaction have also been reviewed on a regular basis.

The bank's general policy prohibits the Forex department from taking positions betting on a rise or fall in any given currency beyond pre-established limits.

Outright forward currency transactions (buy or sell) carried out on behalf of a client are permitted provided the client is considered to have adequate hedge cover and/or sufficient margin.

Outright forward currency transactions (buy or sell) carried out on the bank's behalf are strictly prohibited, unless effected for hedging purposes or as part of a specific, one-off operation.

Stop-losses are also set on the market price of all open positions.

Compliance with the bank's general policy and limits is monitored by KBL, in its capacity as parent company, as described below. Currency limits are assigned to each subsidiary, which produces a daily limit utilisation report. These figures are then consolidated by the Group Risk Management department.

Daily position reports for KBL, in its capacity as bank, are prepared by the forex dealers and Group Risk Management department. The latter reconciles these documents on a daily basis and checks them against accounting balances.

Annex 3 - Activities exposed to interest rate risk

NEW OFFSET ANNUAL EQUIVALENT RISK MEASURE (ERAC-BIS)

The up-dated version of our offset annual equivalent risk measure is a statistical methodology used to estimate the loss resulting from an adverse movement in interest rates. The simulated change (expressed in basis points) is such that there is one chance in a thousand that the actual change will be more severe than the estimate produced using the new offset annual equivalent risk measure, which is valid for one month.

The new offset annual equivalent risk measure incorporates an additional element based on the Sharpe ratio that factors in the current level of positive net interest margin (this model is known within the bank as the "modified offset annual equivalent risk measure").

The key parameters of this model are:

- historical data: weekly data for a minimum five-year period for cash positions and minimum three-year period for bond portfolios,
- time horizon: one month (the regulator recommends 10 days),
- confidence level: 99.9% (the regulator recommends 99%),
- correlations: Non-correlated Value and Risk (for reasons of prudence).

METHOD USED IN 2002

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 set limits for strategic and speculative positions as well as 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 reconcile the analytical accounts with the financial accounts.The Management Audit department analyses these data on a monthly basis and prepares a report for 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 asset items may be financed by certain liabilities 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' funds 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 when analysing interest rate risk, 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 4 - 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 No 98/143 the bank's internal audit system establishes the following audit requirements:

- daily audits by order executors;
- ongoing mission-critical controls by persons overseeing order processing;
- management audits of all activities and functions falling under their direct responsibility;
- 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, which are secure from both the physical and software aspects, are key to minimising known operational risks.

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

- two members of its Executive Committee have been assigned overall responsibility for the bank's administrative and accounting organisation;
- the bank's organisational structures, hierarchical and functional links 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 requiring the approval of the bank's management and all related decisions are documented;
- order inputting follows a very exhaustive 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 client accounts are accounted for in real time in a new Client Financial Risk 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 No 96/126 in all of the following respects: software configuration, applications in use, physical and logical security, structure and procedures in place.

The bank has installed a back-up system from which all central applications can be restarted, without loss of information, in the event of system failure in the operating centre.

The central computer is housed in our offices in Bertrange while the back-up computer is located at head office. The two computers, which are seven kilometres apart, are linked by fibre-optic cables running along two different routes and ensuring real-time synchronisation. Thus, all data recorded on magnetic disks at the production site are simultaneously copied onto disks at the backup site.

Similar infrastructures have been established for data stored on magnetic cassettes, some of which is essential to the smooth functioning of the data 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 is an integral part of the BCP (Business Continuity Plan), which we are now in the process of implementing (see section 1.1.5). The Plan consists of a structured series of provisions designed to ensure the bank can continue operating in the event of major disaster.

TRANSFER OF RISKS

Risk transfer is the responsibility of the Group Insurance department, which reports directly to the Group Risk Management department. Generally, and from a structural viewpoint, when taking out an insurance policy is justified:

- the risk is transferred to the market and/or on one or several captive companies, the key decisions being, firstly, the premium, and, secondly, the cover that is required,
- cover may be either international (master policies), in which case the policy covers one or more specific risks for KBL and all its subsidiaries, or local, in which case only KBL is covered.

In its approach to insuring against risk, the bank makes an explicit distinction between low frequency, high severity losses and high frequency, low severity losses both:

- in systematic studies of risks that can be insured against and transferred to captive insurance companies;
- within the framework of its core methodology.

Finally, until quantitative models for assessing operational risks are implemented by the Group Risk Management department, which closely follows the recent developments of the Basel II Committee, we use our error and incident monitoring data base to track operational risk.

METHODOLOGICAL ISSUES

The national and international regulators (CSSF, Basel II and CAD) are currently in the process of drawing up specific regulations for operational risk in terms of minimum equity requirements.

In this context, the bank took the decision to assign the management of operational risk to its Group Insurance department, which, as mentioned previously, reports directly to the Group Risk Management department.
The Group Insurance department is responsible for examining the effect of using the most advanced models on the adequacy of its shareholders' equity and for carrying out the corresponding financial analysis. It has also been charged with assessing the positive qualitative impact for our bank of adopting such an approach.
In addition, the department will examine and analyse the possibility of using strategies entailing the transfer of this type of risk to other economic agents (insurance companies, custodians, etc), with a view to optimising the bank's transfer cost/risk ratio.
Its investigations will focus on two advanced models in particular, seeking to find a balance between qualitative and quantitative approaches:

- scorecards, to be provided mainly by the Group Risk Management department, drawing on the Internal Audit department's risk mapping exercises,
- loss distribution approach, drawing on data from the bank and group's internal incident database and, possibly also from the database produced in a data pooling exercise that may be implemented in Luxembourg in the course of 2003.

Annex 5 - Credit risk

In its capacity as parent company, KBL seeks to optimise credit risk management by applying strictly predefined rules 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 departments, 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 a superior body
These principles are applicable at both the parent company and all group subsidiaries.

CONTROLS IN PLACE

Several controls have been set in place to optimise credit risk management at the time a credit decision is taken and a lending operation set in motion.
Thus, for each new credit application, 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 likely credit quality, independently of any research provided by external rating agencies.
The parent company's Executive Committee has also taken several types of framework decision on lending transactions.
For example, all credit applications must comply with the counterparty or country limits established by the Executive Committee, to avoid any excessive concentration of these risks. Sector concentration is also re-exam-

ined each time a new credit application is made. This is monitored at consolidated level, in other words taking into account our subsidiaries' commitments.

The Executive Committee has also established an emerging market risk limit, along with specific thresholds for certain niche market businesses. These set the maximum lending levels authorised for these businesses, which are only carried out by the parent company.

The Executive Committee has also established risk acceptance criteria, which should be used as decision-making references.

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. It should be noted in this respect that all new credit applications pass through a middle office that independently examines the merits of the application and issues a recommendation and an opinion intended for the body charged with ruling on the request.

As regards the credit risk arising from the group's market operations, the parent company also establishes guidance lines of credit by counterparty, by product and by country, both for itself and for each group company. These lines are managed at consolidated level and allocated 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. These lines are established on the basis of criteria that take into account both the quality and size (measured by its shareholders' funds) of the counterparty and also the size of our group (measured by our consolidated shareholders' funds).

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-backed, SAS/FRN, CDS, securitisation, emerging markets) are also produced once a year. With regard to asset-backed activities, in which only the parent company engages, we only participate in operations managed by partners that we have selected for their recognised know-how in the sector concerned and that themselves retain a part of the portfolio loan risk. These partners help us monitor risk, both in relation to borrowers and to any guarantee in place.

A report on problem loans is also produced at least every six months, which is also used to determine what levels of specific loan provisions may be required.

Finally, the financial statements of all at risk borrowers are reviewed at least once a year. 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 guidance 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, as far as the Executive Committee of the parent company. A middle office, comprising the Financial Analysis department and Loan Management department among others, is responsible for the independent preparation of these reports.

The parent company also 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. The Executive Committee has drawn up a list of the types of transferable securities that can be pledged in credit transactions and has conservatively given different weightings to these assets, depending on their characteristics and liquidity, among other factors,

- automatic tracking of changes in the ratings of externally-rated borrowers.

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 loans outstanding for KBL, KBL Bank Ireland, Brown Shipley, Merck Finck and Banco Urquijo and represent around 95 % of the KBL group's total loan portfolio. The other subsidiaries, namely Banque Continentale du Luxembourg, KBL France, KB Luxembourg (Monaco), Kredietbank (Suisse) and its subsidiaries, and Fumagalli Soldan 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 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 47.5% of the consolidated portfolio.

The lending activities of our UK subsidiary (Brown Shipley) have been redefined and are now limited to certain types of operations and to loans accompanying private banking and corporate finance operations. As a result, Brown Shipley's loan portfolio has shrunk 38% over the last two years and now only accounts for 2.5 % of the consolidated portfolio.

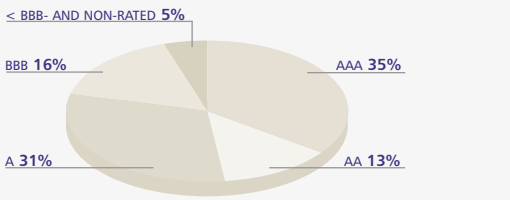
Merck Finck has also been voluntarily scaling down its lending activities since 2000, and now prioritises loans accompanying private banking and corporate finance operations. Its lending policy and decision-making procedures have been reviewed. As a result, Merck Finck's loan portfolio has contracted by 50% since the end of 2000 and now accounts for only 8% of the consolidated portfolio.

Banco Urquijo is the only subsidiary that still has a substantial loan portfolio, focused on private clients for loans accompanying private banking and consultancy activities and on high-quality long-standing corporate clients in the case of most short-term loans. Banco Urquijo's loan portfolio is monitored in close cooperation with KBL. At the end of 2002, Banco Urquijo's lending commitments made up 42% of the consolidated loan portfolio.

1. Breakdown by rating

"Investment grade" securities still make up 95% of KBL's and KBLBI's international securities portfolio, the same percentage as in 2001, despite the many ratings downgrades that have taken place over the past year. Against a particularly hostile international backdrop, this stability demonstrates the quality of our portfolio and its very limited exposure to emerging economies and markets.

BREAKDOWN BY RATING OF INTERNATIONAL SECURITIES PORTFOLIO



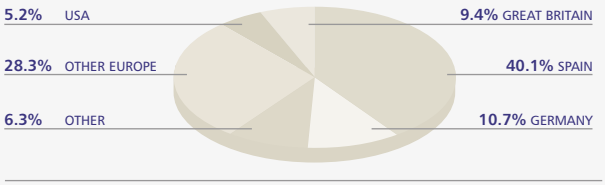
2. Breakdown by region

Western Europe accounts for 87% of the consolidated portfolio, the US for 5%, and other regions just 8%.

KBL and KBLBI mainly lend to borrowers within the European Union and the rest of Western Europe. US borrowers accounted for 13% of overall loans outstanding at the end of 2002.

Banco Urquijo, Merck Finck and Brown Shipley lend almost exclusively on their domestic markets: Spain, Germany and Great Britain respectively.

BREAKDOWN BY REGION



3. Breakdown by economic sector

The portfolio is 15% made up of property loans. These are well-diversified, a large proportion being securitised first lien mortgages, mainly residential, all senior tranche, rated AAA or AA+ and from a large number of exclusively EU countries (Belgium, Netherlands, UK, France, Italy, Spain and Portugal). This heading also includes the property-related loans of our Spanish and German subsidiaries. After property, supranational, sovereign or quasi-sovereign issuers, banks, non-banking financial institutions and food / textiles / restaurants & catering have the heaviest weightings. No sectors, other than property, non-banking financial institutions and food/textiles, account for more than 10% of the consolidated portfolio.

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY ECONOMIC SECTOR AS AT 31 DECEMBER 2002

PROPERTY	15%
FOOD - TEXTILES - HORECA	11%
NON-BANK FINANCIAL INSTITUTIONS	10%
BANKS	8%
SUPRANATIONAL, SOVEREIGN, LOCAL AUTHORITIES	8%
BUILDING MATERIALS AND CONSTRUCTION	6%
MECHANICS - ELECTRICS - ELECTRONICS	5%
TELECOMMUNICATIONS - PRESS	5%
ENERGY AND WATER	4%
LEISURE AND OTHER SERVICES	4%
AUTOMOBILE	3%
CHEMICALS	2%
OTHERS	6%
UNALLOCATED	13%

Specific loan provisions

We indicate below the specific provisions made in respect of the consolidated loan portfolio as at 31 December 2002, and the changes in these provisions over the course of 2002.

As at 31 Decmber 2002 (in EUR thousands)	GROSS LOANS	SPECIFIC PROVISIONS	NET LOANS
More than 90-days overdue	139 359	82 273	56 086
Restructured country loans (inherited from past)	121 214	52 503	68 711
Other doubtful debts	119 352	48 166	71 186
All doubtful and non-performing loans and advances	**379 925**	**183 942**	**195 983**

	PERCENTAGE LOSS ON CONSOLIDATED LOAN PORTFOLIO
FY2002	0.15%
Average 1999-2002	0.14%

SPECIFIC LOAN PROVISIONS (in EUR million)

Total provisions at start of period	**197.08**
Transfers from income statement	
Increase in provisions	+39.14
Reduction in provisions	-19.80
Applications	-15.56
Adjustments for exchange rate variations	-16.92
Total provisions at end of period	**183.94**

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 2002 was:	
	171 368 999.81
Balance brought forward	376 341.06
Profit to be distributed	171 745 340.87
Pursuant to legal and statutory provisions, we propose to allocate this profit as follows:	
Statutory reserves	--
Dividends	110 791 453.15
Board of Directors	1 687 833.34
Reserve for imputed wealth tax	20 574 925.00
Voluntary reserves	38 025 075.00
Carried forward	666 054.38
	171 745 340.87

Subject to approval of this allocation and on the basis of a gross dividend of EUR 5.45 per share, a net dividend of EUR 4.36 will be payable at our offices from 2 May 2003 against production of Coupon No. 6 of the 18 353 387 ordinary shares and Coupon No. 5 of the 1 975 320 non-voting preference shares in existence as at 31 December 2002.

The mandates as Directors of Mrs Marie-Christine Vanthournout-Santens and Messrs Jean-Marie Barthel, Antoine D'Hondt and Frank Donck expire at the 2003 Annual General Meeting.

It is proposed that the mandates of Mrs Marie-Christine Vanthournout-Santens and Messrs Jean-Marie Barthel and Antoine D'Hondt be renewed for a further period of six years.

Mr Jan Maarten de Jong has relinquished his mandate as representative of ABN Bank N.V., having communicated his decision to the President of the Board of Directors in writing on 9 January 2003.

He was reappointed as Director at the meeting of the Board of Directors on 13 March 2003. Since his mandate is due to expire at the Annual General Meeting of 2003, it is proposed to renew this for a further period of six years.

Mr Damien Wigny's mandate as Director expires at the Annual General Meeting of 30 April 2003.

The Board thanks him for his valuable contribution to the Board of Directors and the commitment he has brought to his role as President of the Executive Committee over the years.

Luxembourg, 13 March 2003

The Board of Directors

AUDITORS' REPORT ON THE CONSOLIDATED BALANCE SHEET

AUDITORS' REPORT

To the Board of Directors of Kredietbank SA Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached consolidated accounts of Kredietbank SA Luxembourgeoise for the year ended 31 December 2002 and have read the related management report.

The consolidated accounts and the 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 consolidated 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 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 SA Luxembourgeoise as at 31 December 2002 and the results of its operations for the year then ended.

The management report is consistent with the consolidated accounts.

DELOITTE & TOUCHE
Auditor

Stéphane Césari
Partner

13 March 2003

AUDITORS' REPORT ON THE NON-CONSOLIDATED BALANCE SHEET

AUDITORS' REPORT

To the Board of Directors of Kredietbank SA Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached annual accounts of Kredietbank Luxembourgeoise for the year ended 31 December 2002 and have read the related management report.

The annual accounts and the 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 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 2002 and the results of its operations for the year then ended.

The management report is consistent with the annual accounts.

DELOITTE & TOUCHE
Auditor

Stéphane Césari
Partner

13 March 2003

CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2002	2001
Cash, balances with Central Banks and post office banks	8, 27, 28	307 071 204	137 475 162
Treasury bills and other bills eligible for refinancing with the Central Bank	8, 22, 27, 28	6 069 468 461	3 815 053 287
a) Treasury bills and similar		*6 060 333 906*	*3 799 433 566*
b) Other bills eligible for refinancing with the Central Bank		*9 134 555*	*15 619 721*
Loans and advances to credit institutions	8, 15 27, 28	9 512 440 259	12 099 068 793
a) Repayable on demand		*2 253 139 975*	*1 198 726 955*
b) Other loans and advances		*7 259 300 284*	*10 900 341 838*
Loans and advances to customers	8, 15, 27, 28, 35	4 741 104 587	5 095 946 394
Bonds and other fixed-income securities	8, 9, 10, 12, 15, 22, 27, 28	7 414 575 079	7 493 427 048
a) Issued by public bodies		*4 129 829 544*	*3 868 043 529*
b) Issued by other borrowers		*3 284 745 535*	*3 625 383 519*
Shares and other variable-yield securities	8, 9, 27, 28	433 378 639	406 605 225
Participating interests	9, 11, 12	88 254 693	114 282 675
Interests in associated undertakings	9, 11, 12, 33	45 826 304	44 690 818
Intangible assets	12	7 030 447	8 270 654
Tangible assets	12, 13	339 777 831	340 384 640
Own shares		77 408	772 035
Other assets	14, 22	329 043 745	277 689 845
Prepayments and accrued income		722 589 564	862 280 265
TOTAL ASSETS	**7**	**30 010 638 221**	**30 695 946 841**

The notes follow.

LIABILITIES	NOTES	2002	2001
Amounts owed to credit institutions	8, 15, 27	8 904 021 450	10 546 219 733
a) Repayable on demand		*980 304 562*	*1 242 400 390*
b) With agreed maturity dates or periods of notice		*7 923 716 888*	*9 303 819 343*
Amounts owed to customers	8, 15, 27	16 398 549 799	14 726 019 836
a) Savings deposits		*843 818 179*	*980 615 040*
b) Other deposits		*15 554 731 620*	*13 745 404 796*
ba) Repayable on demand		*3 684 674 868*	*4 029 186 129*
bb) With agreed maturity dates or periods of notice		*11 870 056 752*	*9 716 218 667*
Debts evidenced by certificates	8, 16	621 388 179	1 150 870 533
Bonds and debentures in circulation		*621 147 179*	*1 144 447 533*
Other debts evidenced by securities		*241 000*	*6 423 000*
Other liabilities	17	678 267 098	635 766 987
Accruals and deferred income		897 097 409	1 114 815 898
Provisions for liabilities and charges		357 917 774	332 181 535
a) Provisions for pensions and similar obligations		*28 964 307*	*31 806 595*
b) Provisions for taxes		*83 781 943*	*114 414 014*
c) Other provisions	*37, 38, 39*	*245 171 524*	*185 960 926*
Subordinated liabilities	18	1 052 742 335	1 094 832 214
Special items with a reserve quota portion	19	9 071 178	17 766 578
Fund for general banking risks		126 639 634	127 301 321
Subscribed capital	20	188 987 524	188 987 524
Share premium account		354 569 112	354 569 112
Reserves	21	218 702 386	190 736 950
Minority interests		19 701 922	38 431 209
Profit brought forward	21	376 341	458 439
Profit for the financial year		182 606 080	176 988 972
a) Group share		*180 901 833*	*174 307 536*
b) Minority interest share		*1 704 247*	*2 681 436*
TOTAL LIABILITIES	**7**	**30 010 638 221**	**30 695 946 841**
OFF-BALANCE-SHEET			
Contingent liabilities	23, 27, 28	987 570 341	1 120 401 341
Of which: guarantees and assets pledged as collateral security		620 948 777	719 846 464
Commitments	24, 27, 28	2 646 146 840	3 124 791 326
Fiduciary operations		1 268 186 528	1 421 390 328

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

in EUR, as at 31 December

	NOTES	2002	2001
Interest receivable and similar income		*2 450 852 043*	*2 996 910 370*
of which: that arising from fixed-income securities		*641 833 703*	*633 802 329*
Interest and similar charges		*(2 129 500 438)*	*(2 675 581 326)*
Net interest		321 351 605	321 329 044
Income from securities		65 418 741	15 985 760
a) Income from shares and other variable-yield securities		*43 955 479*	*7 828 478*
b) Income from participating interests		*5 225 655*	*7 118 010*
c) Income from interests in associated undertakings		*16 237 607*	*1 039 272*
Commissions receivable		*406 588 653*	*408 758 939*
Commissions payable		*(72 075 397)*	*(66 498 321)*
Net commissions		334 513 256	342 260 618
Profit on financial operations		64 181 362	35 682 107
Other operating income	30	128 104 548	98 771 106
General administrative expenses		(517 018 424)	(493 598 141)
a) Staff costs	*34, 35*	*(317 003 889)*	*(302 390 642)*
of which: - wages and salaries		*(251 696 127)*	*(243 446 396)*
- social security costs		*(53 845 024)*	*(46 785 068)*
of which: social security costs relating to pensions		*(31 768 622)*	*(20 900 329)*
b) Other administrative expenses		*(200 014 535)*	*(191 207 499)*
Value adjustments in respect of tangible and intangible assets	31	(80 890 422)	(34 299 264)
Other operating charges	32	(13 038 458)	(33 921 625)
Value adjustments and re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		15 788 248	(39 996 902)

The notes follow.

	NOTES	2002	2001
Value adjustments and re-adjustments in respect of transferable securities held as investments, participating interests and shares in associated undertakings		(31 514 772)	11 916 299
Transfers to "special items with a reserve quota portion"		-	(6 305 406)
Income from the writing-back of "special items with a reserve quota portion"		8 604 083	21 220 766
Transfers to fund for general banking risks		476 334	1 614 440
Income from the writing-back of amounts for the fund for general banking risks	36	(18 164 242)	(52 578 798)
Tax on profit from ordinary activities			
PROFIT ON ORDINARY ACTIVITIES, AFTER TAX		**277 811 859**	**188 080 004**
Extraordinary charges	37	(82 706 767)	-
Other taxes not shown under the preceding items		(12 499 012)	(11 091 032)
PROFIT FOR THE FINANCIAL YEAR		**182 606 080**	**176 988 972**
a) Group share		*180 901 833*	*174 307 536*
b) Minority interest share		*1 704 247*	*2 681 436*

The notes follow.

note 1 General

1.1 Incorporation and management of the Bank

Kredietbank S.A. Luxembourgeoise ("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 or 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 rules

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 rules which have been applied for the consolidated accounts correspond generally to those applied for the preparation of the company's unconsolidated accounts and are the following:

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 drawing up 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.

Income and charges in foreign currencies are recorded in their respective currencies and periodically converted at the rates applicable on the conversion dates.

On each closing of the balance sheet the Bank revalues the forward (updated) 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 new 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

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

In line with the instructions issued on 16 December 1997 by the Head of the Tax Office, the maximum level of the provision, which is tax exempt, is 1.25% of the assets at risk.

The standard provision for the assets at risk is allocated pro rata to the items on which calculation of the provision is based between:

- a value adjustment, which is to be deducted from the asset items comprising the assets at risk, and
- a provision for accrued liabilities, attributable to the credit risk on off-balance sheet items, foreign exchange and market risks, which is booked as a balance-sheet liability under the item: "Provisions for liabilities and charges: other provisions".

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.

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 valuation capital gains.

2.8 Bonds and other fixed-income securities

For the purpose 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 portfolio, 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:

Investments

Investments 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. Investments 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.

Beyond this authorised maximum amount, 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 Investments is lower than their redemption value, the discount is taken into the income statement *pro rata temporis* via the prepayments and accrued income on the assets side.

Trading book and investment portfolio

Fixed-income securities maintained in the trading book and the investment portfolio are valued at "lower of cost or market".

2.9 Shares and other variable-yield securities

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

2.10 Participating interests and interests in associated undertakings

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

2.11 Differences resulting from the first consolidation

The differences resulting from the first consolidation correspond 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, these 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 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 estimated period of use.

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 taxation.

2.15 Taxation

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".

During the year under review, the group decided to enter deferred taxes identified as assets and liabilities on the principals of temporal 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 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.

note 4 | Scope of consolidation

Company	Country	Percentage Held as at 31.12.2002	Percentage Held as at 31.12.2001	Date taken into consideration
Parent company:				
Kredietbank S.A. Luxembourgeoise	Luxembourg			31 December
Major subsidiaries (Global integration):				
Brown, Shipley & Co. Ltd and its subsidiaries	United Kingdom	100.00	100.00	31 December
Banco Urquijo and its subsidiaries	Spain	89.68	89.68	31 December
Kredietbank Luxembourg Beteiligungs A.G.	Germany	100.00	100.00	31 December
Merck Finck & Co and its subsidiaries	Germany	100.00	100.00	31 December
Kredietbank (Suisse) S.A., Genève and its subsidiaries	Switzerland	99.99	98.97	31 December
KB Luxembourg (Monaco) S.A.	Monaco	100.00	100.00	31 December
KBL France and its subsidiaries	France	100.00	100.00	31 December
Fumagalli Soldan SIM s. p. a.	Italy	80.00	80.00	31 December
Banque Continentale du Luxembourg S.A.	Luxembourg	100.00	100.00	31 December
KBL Bank Ireland Unltd	IIreland	100.00	100.00	31 December
Kredietrust Luxembourg S.A.	Luxembourg	100.00	100.00	31 December
KB Lux Immo S.A.	Luxembourg	100.00	100.00	31 December
(ex-KBL Founder Ventures S.C.A) and its subsidiaries	Luxembourg	100.00	100.00	31 December
KBL Founder S.A.	Luxembourg	100.00	100.00	31 December
Financière et Immobilière S.A.	Luxembourg	100.00	100.00	31 December
Kredietbank Informatique G.I.E.	Luxembourg	100.00	100.00	31 December

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

The financial statements taken into consideration in the consolidated accounts are those drawn up on the dates of the closing of accounts mentioned above.

The main movements affecting the scope during the year under review are as follows:

In Switzerland

Having bought back, in January 2002, the remaining 17.5% of BLP shares held by minority shareholders, Kredietbank (Suisse) S.A., Geneva also bought back the balance of KB Suisse (Lugano) shares before taking it over. Finally, in December 2002, Banco Urquijo handed KBL its 10% holding in Kredietbank (Suisse) S.A., Geneva, bringing its interest to a little under 100%, some shares still remaining with third parties.

In France

KBL France carried out some major transactions, one the one hand aimed at simplifying its structure, and on the other of continuing its expansion. During the first half of 2002, the structure of the FIDEF sub-group was greatly simplified. In May 2002, KBL France acquired the Lyon-based

wealth manager Michaux Gestion. At the beginning of September 2002, KBL France also acquired the balance (34%) of the shares in Europe Egide Finance. Finally, Michaux Gestion Conseil Patrimoine, subsidiary of Michaux Gestion absorbed Novalis Conseil and changed its name to become Michaux Novalis Conseils Patrimoine.

In Ireland

On 8 August 2002, Banque Continentale du Luxembourg S.A. ceded Contilux Finance to KBL Bank Ireland and there was a merger of the two Irish companies. Banque Continentale du Luxembourg S.A. received a 26.27% holding in the new KBL Bank Ireland in exchange, the balance remaining with KBL. At the end of August 2002, that part of KBL Bank Ireland's capital still denominated in USD, was converted to EUR.

2002 also saw a series of transactions aimed at progressively centralising within the subsidiary KB Lux Immo S.A. (former KBL Founder Ventures S.C.A.) an increasing part of the Group's real estate. Thus KB Lux Immo S.A. acquired Plateau Real Estate and S.C.I. KB Luxembourg Immo II (Monaco) which were consolidated on 31 December 2002.

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 the type of their activities is such that the consolidation of their financial situation would be inappropriate or likely to lead to misinterpretation (see note 33).

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

note 5 | Adjustments and eliminations

The accounts of the consolidated undertakings have been the subject of necessary adjustments and eliminations in order to:

- present their 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 2002, the total amount of the asset items in foreign currencies (ex EUR) converted into EUR, was EUR 9 955 million (2001: EUR 10 851 million); liabilities (ex EUR) amounted to EUR 9 572 million (2001: EUR 11 447 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.

Breakdown of amounts outstanding on the non-trading book according to residual maturity

Non-trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2002 (see note 2.4) (comparative data as at 31 December 2001 not given) :

EUR million	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS OF INDEFINITE PERIOD	TOTAL
Asset items:					
Cash, balances with central banks and post office banks	307	-	-	-	307
Treasury bills and other bills eligible for refinancing with the Central Bank	747	2 994	2 003	-	5 744
Loans and advances to credit institutions	7 183	670	22	-	7 876
payable on demand	*2 253*	*-*	*-*	*-*	*2 253*
with agreed maturity or periods of notice	*4 930*	*670*	*22*	*-*	*5 622*
Loans and advances to customers	1 797	1 236	628	548	4 209
Bonds and other fixed-income securities	464	1 124	4 453	1 186	7 227
public issuers	*206*	*734*	*2 562*	*513*	*4 016*
other issuers	*259*	*390*	*1 891*	*672*	*3 211*
Shares and other variable-yield securities	-	-	-	324	324
Liability items:					
Amounts owed to credit institutions	7 490	1 169	227	19	8 904
payable on demand	*980*	*-*	*-*	*-*	*980*
with agreed maturity or periods of notice	*6 510*	*1 169*	*227*	*19*	*7 924*
Amounts owed to customers	10 121	4 311	125	19	14 576
savings deposits	*838*	*-*	*1*	*4*	*844*
others repayable on demand	*3 685*	*-*	*-*	*-*	*3 685*
with agreed maturity dates or periods of notice	*5 598*	*4 311*	*124*	*14*	*10 048*
Debts evidenced by certificates	192	90	332	7	621

The amounts are net of general provisions.
The additions are based on the exact amounts and not amounts rounded up.
This is valid for the tables in the notes which follow.

Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2002 (comparative data as at 31 December 2001 not given):

(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
	Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years or indeterminate		Total	
Assets:										
Treasury bills and other bills eligible for refinancing with the Central Bank	80	69	221	221	24	24	-	-	325	314
Loans and advances to credit institutions (*)	1 520	1 759	117	90	-	-	-	-	1 637	1 849
Loans and advances to customers (*)	532	561	-	-	-	-	-	-	532	561
Bonds and other fixed-income securities	1	109	19	114	75	30	93	86	187	339
Equities and other variable-yield securities	-	-	-	-	-	-	109	68	109	68
Liabilities:										
Amounts owed to customers	1 809	1 942	13	6	-	-	-	-	1 822	1 948

The fair value at the end of the financial year does not differ significantly from the net accounting value at the end of the year.

(*) The loans and advances comprise securities lending operations and repo and reverse repo transactions.

note 9 | Transferable securities

Securities booked under the items "Bonds and other fixed-income securities", "Equities and other variable-yield securities", "Participating interests" and "Interests in associated undertakings" were valued as follows at 31 December 2002 (2001):

EUR million	LISTED SECURITIES	NON-LISTED SECURITIES	TOTAL
1. Bonds and other fixed-income securities	7 226 (7 079)	188 (414)	7 415 (7 493)
2. Equities and other variable-yield securities	238 (98)	195 (309)	433 (407)
3. Participating interests	39 (31)	50 (83)	88 (114)
4. Interests in associated undertakings	22 (24)	24 (21)	46 (45)

The amount of value adjustments on transferable securities held under the "Beibehaltungsprinzip" as investments and current assets respectively amounted at 31 December 2002 to EUR 5 million (2001 : EUR 5 million) and to EUR 9 million (2001: EUR 11 million).

note 10 | Bonds and other fixed-income securities

As at 31 December 2002, securities booked under "Bonds and other fixed-income securities" could be broken down into:

EUR million	2002	2001
- Investments	4 625	4 862
- Other fixed-income securities	2 790	2 632
	7 415	7 494

Investments 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 booked under "Bonds and other fixed-income securities" maturing in 2003 amounts to EUR 1 637 million (2001: EUR 2 077 million for those maturing in 2002).

Cumulative depreciation since the acquisition date of premiums on bonds and other fixed income securities amounted as at 31 December 2002 to EUR 3 million (2001: EUR 6 million) for premiums taken directly into the income statement and to EUR 112 million (2001: EUR 143 million) for the premiums taken on a pro rata basis, of which EUR 72 million (2001: EUR 70 million) relating to transferable fixed-income securities having the character of investments.

The amount of discounts on bonds and other fixed-income securities considered as investments decreased from EUR 4 million as at 31 December 2001 to EUR 3 million as at 31 December 2002.

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

EUR million	2002	2001
- Participating interests in credit institutions	21	21
- Interests in associated undertakings which are credit institutions	-	-

note 12 Changes in fixed assets

EUR million	ACQUISITION VALUE AS AT 01.01.2002	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2002	CUMULATIVE VALUE ADJ. AS AT 31.12.2002(*)	NET VALUE AS AT 31.12.2001
1. Investments	5 116	(245)	1 688	(1 690)	4 870	(129)	4 742
- Participating interests	*120*	*(4)*	*17*	*(13)*	*120*	*(32)*	*88*
- Shares in associated undertakings held as investments	*25*	*-*	*3*	*-*	*28*	*(-)*	*28*
- Bonds and other fixed-income securities held as investments	*4 971*	*(241)*	*1 668*	*(1 677)*	*4 722*	*(97)*	*4 625*
2. Tangible fixed assets	527	-	48	(30)	545	(205)	340
- Land and buildings	*321*	*1*	*20*	*(13)*	*329*	*(69)*	*260*
- Technical equipment, machines and furniture	*206*	*(1)*	*28*	*(18)*	*215*	*(136)*	*80*
3. Intangible fixed assets	107	(3)	45	(6)	142	(135)	7
- Incorporation costs	*5*	*-*	*-*	*(1)*	*4*	*(4)*	*-*
- Goodwill acquired against payment	*78*	*(3)*	*40*	*(3)*	*111*	*(111)*	*-*
- Software and other intangibles	*23*	*-*	*5*	*(1)*	*27*	*(20)*	*7*

(*) includes general provisions.

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 204 million (2001: EUR 218 million).

note 14 | Other assets

The item "Other assets" covers mainly 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 2002 this item also comprises deferred taxes assets , total amount EUR 78 million. Apart from deferred taxes assets for previous years and entered under the heading of Banco Urquijo for an amount of EUR 33.5 million, the variations in the financial year are mainly explained by an amount of EUR 10.5 million for recoverable fiscal losses of the Brown, Shipley & Co group and also by a tax credit generated by subcontracting the pension fund of Banco Urquijo, for an amount of EUR 29.5 million.

note 15 | Transactions with group undertakings and subordinated claims

As at 31 December 2002 (2001), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

EUR million	Loans and advances to Associated undertakings	Loans and advances to Undertakings in which the Bank has a participating interest
ASSET ITEMS		
Loans and advances to	340	118
lcredit institutions	(656)	(184)
Loans and advances to	39	2
customers	(42)	(2)
Bonds and other fixed-	1	-
income securities	(4)	(-)

EUR million	Amounts owed to Associated undertakings	Amounts owed to Undertakings in which the Bank has a participating interest
LIABILITY ITEMS		
Amounts owed to	224	57
credit institutions	(494)	(76)
Amounts owed to	115	3
customers	(85)	(3)

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 fixed-income securities	6 (9)	- (-)	- (-)

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 insolvency.

note 16 | Debts evidenced by certificates

As at 31 December 2002, the amount of cash certificates and bonds in circulation maturing in 2003 was EUR 282 million (2001: EUR 617 million for those maturing in 2002).

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

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 following subordinated loans were outstanding as at 31 December:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	ACCOUNTING BALANCE AS AT 31.12.02	ACCOUNTING BALANCE AS AT 31.12.01
Subordinated debenture loan	8.875%	13/08/92	13/08/02	-	12.4
Subordinated debenture loan	8.000%	29/07/94	25/06/02	-	37.2
Subordinated debenture loan	7.875%	19/07/94	19/07/04	24.8	24.8
Subordinated debenture loan	8.625%	14/10/94	14/10/04	24.8	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	6.000%	28/08/96	28/08/03	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	53.8
Subordinated debenture loan	6.375%	31/01/01	31/01/11	400.0	400.0
Subordinated debenture loan	5.375%	23/02/01	23/02/16	200.0	200.0
				1 025.7	1 075.2

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2002, EUR 27 million had been issued (2001: EUR 20 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 liabilities subordinated during the financial year amounts to EUR 68 million (2001: 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.

note 20 | Capital

As at 31 December 2001 and 2002, 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 2002 the Bank held 905 (2001 : 9 412) of its own shares.

note 21 Development of reserves and results brought forward

EUR million	RESERVES	PROFIT BROUGHT FORWARD
1. Balance as at 1 January 2002	190.7	0.5
2. Profit for the financial year ended 31 December 2001		174.3
3. Allocation of profit:		
Transfer to reserves	70.2	(70.2)
Dividends		(102.7)
Directors' fees		(1.5)
4. Other movements	(42.2)	
5. Balance as at 31 December 2002	218.7	0.4

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 of the first consolidation noted during the financial year 2002. The differences in the first consolidation were completely deducted from the reserves (see note 2.11).

note 22 Assets pledged as collateral security

As at 31 December 2002 (2001), the total amount of assets pledged by the Bank as collateral security for its own commitments was as follows:

ASSETS PLEDGED AS COLLATERAL SECURITY	MONTANT EUR million	COMMENTS
Treasury and other bills	1 424 (1 380)	Assets pledged by the Bank as collateral security for its activities with the Luxembourg Central Bank
Bonds and other fixed-income securities. Other assets	317 (353)	Assets pledged by the Bank as collateral security for its activities with the central banks and clearing houses
Bonds and other fixed-income securities	30 (7)	Assets pledged by the Bank as collateral security for its securities lending or credit lines received
Other assets	1 (13)	Assets pledged by the Bank as collateral security for its activities carried out on a derivatives market

note 23 | Contingent liabilities

The contingent liabilities of the Bank included in particular the following items at 31 December:

EUR million	TOTAL OF CONTINGENT LIABILITIES 2002	TOTAL OF CONTINGENT LIABILITIES 2001	OF WHICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2002	OF WHICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2001
Guarantees and other direct credit substitutes	587	674	39	39
Counter-guarantees	333	344	1	-
Documentary credits	34	46	1	-
Other contingent liabilities	34	56	-	-
	988	1 120	41	39

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

note 24 | Commitments

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

EUR million	TOTAL COMMITMENTS 2002	TOTAL COMMITMENTS 2001	OF WHICH: COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2002	OF WHICH: COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2001
Forward purchase of assets	5	2	-	-
Forward sales of assets	14	-	-	-
Amounts to be paid up in respect of securities and participating interests	35	35	-	-
Unused confirmed credits	2 420	2 313	32	30
Spot transaction settlements	173	775	11	38
	2 646	3 125	43	68

The Bank has entered into 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 38 below.

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

note 25 | 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 26 | Breakdown of derivatives by category of instrument and residual maturity

Derivatives in the trading book are generally initiated by the parent company in Luxembourg.

The table below gives the breakdown of non-trading book derivatives as at 31 December 2002 and 2001 (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 only shows operations to be delivered:

DERIVATIVES (non-trading book)	OTC						STOCK MARKET					
					2002	2001					2002	2001
	<=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
notional value in EUR million												
Categories of instruments												
Interest rate instruments												
Futures	-	-	-	-	-	-	-	-	-	-	-	4
Swaps	6 993	6 869	4 503	1 237	19 602	28 134	-	-	-	-	-	-
Options	1	11	779	42	833	762	-	-	-	-	-	-
					20 435	28 896					-	4
Currency/Gold instruments												
Futures	1 046	283	4	-	1 333	128	91	6	-	-	97	-
Swaps	6 134	3 425	464	216	10 239	16 049	-	-	-	-	-	120
Options	69	98	-	-	167	236	-	-	-	-	-	-
					11 739	16 413					97	120
Equity Instruments												
Futures	32	-	-	-	32	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Options	-	12	-	-	12	339	7	33	12	-	52	70
					44	339					52	70
Credit derivatives	-	-		-	-	-	-	-	-	-	-	-
Total					32 218	45 648					149	194

note 27 | 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.

ASSET ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Cash and loans and advances to credit institutions	European Union	9 165	11 529
	Other zone A countries	604	456
	Others	50	251
		9 820	**12 237**
Loans and advances to customers	European Union	4 217	4 408
	Other zone A countries	359	483
	Supranational outstandings	-	2
	Others	165	203
		4 741	**5 096**
Treasury bills and transferable securities, excluding participating interests and interests in associated undertakings	European Union	11 183	9 885
	Other zone A countries	2 487	1 620
	Supranational outstandings	109	158
	Others	139	52
		13 917	**11 715**

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

LIABILITY ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Amounts owed to credit institutions	European Union	5 655	6 563
	Other zone A countries	2 922	3 245
	Supranational outstandings	-	2
	Others	327	736
		8 904	**10 546**
Amounts owed to customers	European Union	14 894	12 732
	Other zone A countries	562	822
	Supranational outstandings	72	50
	Others	870	1 122
		16 399	**14 726**

The table below gives the breakdown of off-balance-sheet items by country group as at 31 December.

OFF-BALANCE-SHEET ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Contingent liabilities	European Union	918	1 023
	Other zone A countries	43	55
	Others	26	42
		988	1 120
Commitments: unused confirmed credits	European Union	2 356	2 263
	Other zone A countries	38	34
	Others	25	16
		2 420	2 313

note 28 | 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.

ECONOMIC SECTOR (accounting value) EUR million	ASSET ITEM	2002	2001
Public sector	Debts	21	29
	Treasury bills and fixed-income securities	10 190	7 675
Total public sector		**10 211**	**7 704**
Banks			
Central banks	Debts	310	137
	Fixed-income securities	42	52
		352	**189**
Multilateral development banks	Fixed-income securities	**109**	**159**
Other banks	Debts	9 510	12 099
	Treasury bills and fixed-income securities	735	910
	Variable-yield securities (*)	2	2
		10 246	**13 011**
Total banks		**10 707**	**13 359**
Financial institutions			
UCI	Debts	111	195
	Fixed-income securities	29	10
	Variable-yield securities (*)	278	355
		418	**560**
Holdings	Debts	335	912
	Fixed-income securities	9	9
	Variable-yield securities	1	2
		345	**923**
Other financial institutions	Debts	766	234
	Fixed-income securities	716	1 062
	Variable-yield securities (*)	14	14
		1 497	**1 310**
Total financial institutions		**2 260**	**2 793**
Other sectors	Debts	3 508	3 726
	Fixed-income securities	1 654	1 432
	Variable-yield securities (*)	138	33
Total other sectors		**5 300**	**5 191**
Total other sectors (total by asset item)	Debts	14 561	17 332
	Fixed-income securities	13 484	11 308
	Variable-yield securities (*)	433	407
Total		**28 478**	**29 047**

(*) ex interests and shares in associated undertakings.

The table below gives the breakdown of contingent liability items and unused credit lines granted by economic sector as at 31 December.

ECONOMIC SECTOR (accounting value) EUR million	OFF-BALANCE-SHEET ITEM	2002	2001
Public sector	Credit lines granted	66	66
Total public sector		**66**	**66**
Banks			
Other credit institutions	Contingent liabilities	172	217
	Credit lines granted	963	965
Total banks		**1 135**	**1 181**
Financial institutions			
UCI	Credit lines granted	56	68
Holdings	Contingent liabilities	4	10
	Credit lines granted	47	23
		51	**33**
Other financial establishments	Contingent liabilities	46	44
	Credit lines granted	47	52
		93	**95**
Total financial establishments		**199**	**196**
Other sectors	Contingent liabilities	766	850
	Credit lines granted	1 241	1 139
Total other sectors		**2 007**	**1 989**
Total per off-balance sheet item	Contingent liabilities	988	1 120
	Credit lines granted	2 420	2 313
Total		**3 407**	**3 433**

note 29 | Exposure to credit, exchange and market risks

The capital adequacy requirements for covering credit, exchange and market risks are calculated according to the legal stipulations laid down in CSSF Circular No. 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 a total of EUR 893.2 million as at 31 December 2002. On a consolidated basis, only 1.5% of these are attributable to the consolidated exchange risk and 2.0% to consolidated market risks.

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 2002 and 2001.

	2002		2001
WEIGHTING ATTRIBUTED TO THE COUNTERPARTY EUR million	CREDIT RISK BEFORE WEIGHTING	WEIGHTED RISK	WEIGHTED RISK
Balance sheet items	**28 986**	**9 323**	**10 302**
0%	10 541	0	0
10%	31	3	5
20%	10 690	2 138	2 699
50%	1 084	542	546
100%	6 640	6 640	7 051
Off-balance-sheet items	**3 522**	**1 254**	**1 437**
0%616	0	0	
10%	1 022	102	98
20%	177	35	43
50%	1 180	590	602
100%	526	526	693
Derivatives		**196**	**269**
TOTAL		**10 773**	**12 008**

Derivatives are mainly initiated by the parent company in Luxembourg.

Exchange positions as at 31 December 2002 and 2001 were the following (short positions are in brackets):

		2002	2001
CURRENCY	NET COUNTERVALUE POSITION, EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, EUR MILLION
DKK	1.7		
GBP	24.1		
SEK	9.9		
European Union currencies (ex EMU)	**35.7**	**0.6**	**0.4**
ARS	0.2		
CAD	0.6		
CHF	2.9		
HUF	126.1		
JPY	1.3		
NZD	0.2		
PLN	59.9		
TRL	0.2		
USD	(61.8)		
ZAR	0.2		
Other currencies	(4.7)		
Currencies outside the European Union	**125.1**	**13.2**	**7.4**
Total		**13.8**	**7.8**

Most exchange positions are generated by the parent company.

note 30 | Other operating income

The amounts recorded under this item essentially represent income from the activities of the Bank but which are not related to the current financial year. They also cover rent from buildings owned by the Bank. recovery of provisions for taxes relating to earlier fiscal years. as well as the recovery of various provisions previously set up. This item also covers the capital gains on the sale of holdings: as at 31 December 2002, it includes the gain of EUR 39.3 million on the sale of the holding in Clearstream (ex-Cedel International).

note 31 | Value adjustments on tangible and intangible assets

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

note 32 | Other operating charges

The amounts under this item are essentially the provision for the Association for the Guarantee of Deposits, Luxembourg and transfers to the provision for risk.

note 33 | 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 REGISTRATED OFFICE	PERCERTAGE OF CAPITAL HELD (IN%)	SHAREHOLDERS' EQUITY	RESULT	REFERENCE DATE
Asia Oceania Management S.A. - Luxembourg	100.00%	409 000 USD	15 561 USD	31.12.2001
KB Ré S.A. - Luxembourg	100.00%	14 638 855 EUR	16 212 418 EUR	31.12.2002
Renelux S.A. - Luxembourg	100.00%	1 487 361 EUR	-	31.12.2002
Belair Management Company S.A.- Luxembourg	66.68%	1 388 307 USD	10 688 USD	31.12.2001
European Fund Administration S.A. - Luxembourg	39.00%	12 675 630 EUR	-5 461 455 EUR	31.12.2002
Gécalux - Luxembourg	33.33%	792 921 EUR	-712 190 EUR	31.12.2001
TVM GmbH Munich - Germany	31.25%	407 729 EUR	-59 425 EUR	31.12.2001

note 34 | Number of employees

During the fiscal year, the average number of persons employed by the companies consolidated by the Bank, can be broken down as follows:

	NUMBER 2002	NUMBER 2001
Senior management	206	239
Managerial staff	1 263	1 199
Clerical staff	2 444	2 606
Workers	12	19
	3 925	4 063

note 35 | Remuneration, advances and commitments to various bank directors and officers

AS AT 31.12.2002 EUR	REMUNERATION PAID IN 2002 DUE TO POSITION OCCUPIED	CREDIT LINES AND GUARANTEES GIVEN	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE RETIREMENT PENSIONS
Board of Directors	6 415 641 (94)	10 709 047 (24)	4 219 294 (22)	1 085 242 (11)	715 784 (7)
Management	33 763 635 (198)	6 056 421 (70)	3 926 157 (72)	961 834 (47)	6 077 750 (159)

( ): number of persons concerned

SITUATION AT 31.12.2001 EUR	REMUNERATION PAID IN 2001 DUE TO POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GIVEN	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE RETIREMENT PENSIONS
Board of Directors	8 805 211 (117)	14 353 191 (30)	9 568 224 (30)	548 272 (15)	1 021 931 (15)
Management	35 660 564 (230)	10 055 861 (85)	7 867 708 (85)	1 074 633 (45)	5 840 865 (189)

( ): number of persons concerned

note 36 | Tax on profit from ordinary activities

As at 31 December 2002 (2001), the tax on profit from ordinary activities was made up as follows:

- current tax for an amount of EUR 59 million (EUR 52 million),
- proceeds of the accounting of deferred interest (cf. note 2.15) for an amount of EUR 41 million (nil) (cf. note 14).

note 37 | Extraordinary charges

As part of its cost-efficiency policy, the group decided to implement early retirement measures and restructuring plans in several of its subsidiaries. The estimated cost of these measures has been entered under the item “Extraordinary charges”.

note 38 | 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 Law of 11 June 1997, 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 Amended Law of 10 August 1915 on commercial companies, to draw up a short-term balance sheet.

For each member bank the Guarantee is limited to a maximum amount of EUR 20 000 per customer. In the same case, the AGDL protects all investors by guaranteeing the reimbursement fo 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.

note 39 | Provision for cost of switching to the euro

During the financial years 1996 to 1998, the Bank set up provisions to cover the costs relating to switching to the euro, these provisions amounted to 2% of the general administrative costs for the various years.
These provisions were entered under the item "Provisions for liabilities and charges, other provisions".
The Bank has gradually repaid these provisions over a period of four years beginning in 1999. The balance of the provision for the cost of switching to the euro was zero as at 31 December 2002.

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 magistrate with offences relating to fraud as a result of their professional activities at the Bank.
The outcome of these charges is not certain and it is impossible to foresee their possible impact on the financial situation 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.

NON-CONSOLIDATED ACCOUNTS

NON-CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2002	2001
Cash, balances with Central Banks and post office banks	4, 23, 24	191 567 945	22 081 248
Treasury bills and other bills eligible for refinancing with the Central Bank	4, 18, 23, 24	5 737 572 368	3 793 308 911
Treasury bills and similar securities		*5 737 572 368*	*3 793 308 911*
Loans and advances to credit Institutions:	4, 11, 23, 24	9 038 534 988	9 941 169 835
a) Repayable on demand		*2 098 156 892*	*1 143 737 950*
b) Other loans and advances		*6 940 378 096*	*8 797 431 885*
Loans and advances to customers	4, 11, 23, 24	1 464 960 277	1 962 037 517
Bonds and other fixed income securities	4, 5, 6, 8, 11 18, 23, 24	4 876 839 501	4 896 810 472
a) Issued by public bodies		*3 709 140 250*	*3 450 376 133*
b) Issued by other borrowers		*1 167 699 251*	*1 446 434 339*
Shares and other variable-yield securities	4, 5, 23, 24	273 313 588	378 775 404
Participating interests	5, 7, 8, 29	67 161 765	91 544 069
Interests in associated undertakings	5, 7, 8, 29	896 895 105	908 093 819
Tangible assets	8, 9	98 214 250	93 578 874
Own shares	16	77 408	772 035
Other assets	10	60 314 334	73 599 781
Payments and accrued income	6	638 174 541	767 454 657
TOTAL ASSETS	**3**	**23 343 626 070**	**22 929 226 622**

The notes follow.

LIABILITIES	NOTES	2002	2001
Amounts owed to credit institutions:	4, 11, 23	7 643 043 947	8 366 307 037
a) Repayable on demand		*1 173 153 062*	*1 459 203 581*
b) With agreed maturity dates or periods of notice		*6 469 890 885*	*6 907 103 456*
Amounts owed to customers	4, 11, 23	11 450 535 172	9 525 223 423
a) Saving deposits		*773 887 439*	*910 767 813*
b) Other debts			
ba) Repayable on demand		*1 666 627 373*	*1 906 008 438*
bb) With agreed maturity dates or periods of notice		*9 010 020 360*	*6 708 447 172*
Debts evidenced by certificates	4, 12	616 422 913	1 141 252 827
Bonds and debentures in circulation		*616 422 913*	*1 141 252 827*
Other liabilities	13	256 809 532	316 465 330
Payments and accrued income	6	787 169 028	997 738 269
Provisions for liabilities and charges		151 882 144	161 778 786
a) Provisions for taxes		*53 529 159*	*78 785 030*
b) Other provisions	*33, 34*	*98 352 985*	*82 993 756*
Subordinated liabilities	14	1 052 742 335	1 094 832 214
Special items with a reserve quota portion	15	22 368 870	30 151 303
Fund for general banking risks		118 668 802	118 668 802
Subscribed capital	16, 17	188 987 524	188 987 524
Share premium account	17	354 569 112	354 569 112
Reserves	17	528 681 350	473 681 350
Profit brought forward	17	376 341	458 439
Profit for the financial year	17	171 369 000	159 112 206
TOTAL LIABILITIES	**3**	**23 343 626 070**	**22 929 226 622**
OFF-BALANCE-SHEET			
Contingent liabilities	19, 23, 24	608 984 341	641 381 823
of which: guarantees and assets pledged as collateral security		602 867 706	634 626 787
Commitments	20, 23, 24	1 344 763 825	1 935 194 523
Fiduciary operations		1 222 245 792	1 213 171 835

The notes follow.

NON-CONSOLIDATED PROFIT AND LOSS ACCOUNT

in EUR, as at 31 December

	NOTES	2002	2001
Interest receivable and similar income		*2 122 211 470*	*2 587 850 151*
of which: that arising from fixed-income securities		*526 791 915*	*503 325 085*
Interest payable and similar charges	*14*	*(1 920 505 497)*	*(2 394 904 658)*
Net interest	6	201 705 973	192 945 493
Income from securities		92 298 786	44 064 064
a) Income from shares and other variable-yield securities		*42 540 591*	*4 120 984*
b) Income from participating interests		*3 613 613*	*3 801 428*
c) Income from interests in associated undertakings		*46 144 582*	*36 141 652*
Commissions receivable		*94 940 243*	*90 832 587*
Commissions payable		*(15 112 668)*	*(10 242 267)*
Net commissions		79 827 575	80 590 320
Net profit on financial operations		*49 073 784*	*12 123 651*
Other operating income	27	*75 049 535*	*60 543 876*
General administrative expenses:		(175 176 271)	(156 800 965)
a)) Staff costs		*(99 230 076)*	*(91 099 279)*
of which: - wages and salaries	*31*	*(84 893 461)*	*(80 045 668)*
- social security costs		*(12 624 293)*	*(9 958 962)*
of which: social security costs relating to pensions		*(10 273 074)*	*(7 741 463)*
b) Other administrative expenses		*(75 946 195)*	*(65 701 686)*
Value adjustments in respect of tangible and intangible expenses		(7 387 409)	(6 301 575)
Other operating charges	28	(3 732 540)	(11 016 651)
Value adjustments and re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		12 344 941	(27 699 602)

The notes follow.

	NOTES	2002	2001
Value adjustments and re-adjustments in respect of transferable securities held as investments, participating interests and interests in associated undertakings		(64 487 877)	1 321 587
Transfers to "special items with a reserve quota portion"			
Income from the writing-back of "special items with a reserve quota portion"	15	7 848 624	21 253 315
Tax on profit from ordinary activities		(45 700 000)	(36 472 000)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		**221 665 121**	**168 246 107**
Extraordinary expenses	32	(38 900 000)	-
Other taxes not shown under the preceding items		(11 396 121)	(9 133 901)
PROFIT FOR THE FINANCIAL YEAR	**17**	**171 369 000**	**159 112 206**

The notes follow.

note 1 General

1.1 Incorporation and management of the Bank

Kredietbank S.A. Luxembourgeoise 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 or 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:

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.

Income and charges in foreign currencies are recorded in their respective currencies and periodically converted at the rates applicable on the conversion dates.

On each closing of the balance sheet the bank revalues the forward (updated) 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 new 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

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

In line with the instructions issued on 16 December 1997 by the Head of the Tax Office, the maximum level of the provision, which is tax exempt, is 1.25% of the assets at risk.

The standard provision for the assets at risk is allocated pro rata to the items on which calculation of the provision is based between:

- a value adjustment, which is to be deducted from the asset items comprising the assets at risk, and
- a provision for accrued liabilities, attributable to the credit risk on off-balance sheet items, foreign exchange and market risks, which is booked as a balance-sheet liability under the item: "Provisions for liabilities and charges: other provisions".

2.5 Fund for general banking risk

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.

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 valuation capital gains.

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 portfolio, 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:

Investments

Investments 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. Investments 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.

Beyond this authorised maximum amount, 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 investments is lower than their redemption value, the discount is taken into the income statement *pro rata temporis* via the prepayments and accrued income on the assets side.

Trading book and investment portfolio

Fixed-income securities maintained in the trading book and the investment portfolio are valued at "lower of cost or market".

2.9 Shares and other variable-yield securities

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

2.10 Participating interests and interests in associated undertakings

Participating interests and interests 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 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 estimated period of use.

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 Taxation

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 put together with those of Kredietbank S.A. Luxembourgeoise (fiscal integration regime). 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);
- Kredietrust Luxembourg S.A. (since 2002);
- Financière et Immobilière S.A. (since 2002);
- KB Ré S.A. (since 2002);
- Renelux S.A. (since 2002).

note 3 | Assets and liabilities in foreign currencies

As at 31 December 2002, the total amount of assets denominated in foreign currencies (apart from EUR), converted into EUR was EUR 6 582 million (2001: EUR 7 388 million); the total amount of liabilities (apart from EUR) was EUR 6 112 million (2001: EUR 7 961 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 2002 (see note 2.4) (comparative data as at 31 December 2001 not given):

(EUR million)	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years or indefinite period	Total
Assets items					
Cash, balances with central banks and post office bank	192	-	-	-	192
Treasury bills and other bills eligible for refinancing with the Central Bank	747	2 989	1 990	-	5 727
Loans and advances to credit institutions	7 771	705	33	103	8 612
Payable on demand	*2 098*	-	-	-	*2 098*
With agreed maturity or periods of notice	*5 673*	*705*	*33*	*103*	*6 514*
Loans and advances to customers	643	124	209	131	1 107
Bonds and other fixed-income securities	297	703	3 288	510	4 797
Public issuers	*159*	*588*	*2 555*	*401*	*3 703*
Other issuers	*138*	*115*	*732*	*109*	*1 093*
Shares and other variable-yield securities	-	-	-	269	269
Liability items					
Amounts owed to credit institutions	6 532	1 108	3	-	7 643
Payable on demand	*1 173*	-	-	-	*1 173*
With agreed maturity or periods of notice	*5 359*	*1 108*	*3*	-	*6 470*
Amounts owed to customers	6 482	4 166	17	1	10 666
Savings deposits	*773*	-	*1*	-	*774*
Others repayable on demand	*1 667*	-	-	-	*1 667*
With agreed maturity date or periods of notice	*4 043*	*4 166*	*16*	*1*	*8 225*
Debts evidenced by certificates	192	90	332	2	616

The amounts are given net of general 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 2002 (comparative data as at 31 December 2001 not given).

(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
	Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years or indeterminate		Total	
Assets:										
Treasury bills and other bills eligible for refinancing with the Central Bank	11	3	-	-	-	-	-	-	11	3
Loans and advances to credit institutions (*)	427	472	-	-	-	-	-	-	427	472
Loans and advances to customers (*)	357	448	-	-	-	-	-	-	357	448
Bonds and other fixed-income securities	21	19	9	5	33	32	17	20	80	76
Equities and other variable-yield securities	-	-	-	-	-	-	4	5	4	5
Liabilities:										
Amounts owed to customers (*)	785	796	-	-	-	-	-	-	785	796

The fair value of bonds and 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 transaction loan operations and securities lending.

note 5 | Transferable securities

Securities booked under the items "Bonds and other fixed-income securities", "Equities and other variable-yield securities", "Participating interests" and "Interests in associated undertakings" were valued as follows as at 31 December 2002 (2001):

EUR million	LISTED SECURITIES	NON-LISTED SECURITIES	TOTAL
1. Bonds and other	4 711	166	4 877
fixed-income securities	(4 515)	(382)	(4 897)
2. Equities and other	92	182	273
variable-yield securities	(86)	(292)	(379)
3. Participating interests	21	47	67
	(15)	(76)	(92)
4. Interests in associated undertakings	17	879	897
	(19)	(889)	(908)

The amount of value adjustments on transferable securities held under the "Beibehaltungsprinzip" (see note 2.11) as investments and current assets respectively amounted as at 31 December 2002 to EUR 5 million (2001: EUR 5 million) and to EUR 9 million (2001: EUR 11 million).

note 6 | Bonds and other fixed income securities

As at 31 December 2002, securities booked under "Bonds and other fixed-income securities" could be broken down into:

EUR million	2002	2001
- Investments	2 487	3 023
- Other fixed-income securities	2 390	1 874
	4 877	4 897

Investments 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 booked under "Bonds and other fixed-income securities" maturing in 2003 amounts to EUR 1 028 million (2001: EUR 1 370 million for those maturing in 2002).

Cumulative depreciation since the acquisition date of premiums on bonds and other fixed income securities as at 31 December 2002 amounted to zero (2001: EUR 5 million) for premiums taken directly into the income statement and to EUR 107 million (2001: EUR 130 million) for the premiums taken on a pro rata basis, of which EUR 65 million (2001: EUR 64 million) relating to transferable fixed-income securities having the character of investments.

The amount of discounts on bonds and other fixed-income securities considered as investments decreased from EUR 2.8 million as at 31 December 2001 to EUR 2.3 million as at 31 December 2002.

note 7 Participating interests and interests in associated undertakings in other credit institutions

EUR million	2002	2001
- Participating interests in credit institutions	21	21
- Interests in associated undertakings which are credit institutions	764	739

note 8 Changes in fixed assets

(EUR million)	ACQUISITION VALUE AS AT 01.01.2002	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2002	CUMULATED VALUE ADJUST-MENTS AS AT 31.12.2002(*)	NET VALUE AS AT 31.12.2002
1. Investments	4 131	-156	835	1 204	3 606	172	3 433
- *Participating interests*	*93*	*-4*	*13*	*9*	*93*	*25*	*67*
- *Shares in associated undertakings held as investments*	*905*	*-19*	*160*	*117*	*930*	*51*	*879*
- *Bonds and other fixed-income securities held as investments*	*3 133*	*-133*	*662*	*1 079*	*2 583*	*96*	*2 487*
2. Tangible fixed assets	134	-	12	2	143	44	98
- *Land and buildings*	*114*	*-*	*10*	*2*	*122*	*35*	*87*
- *Technical equipment, machines and furniture*	*20*	*-*	*2*	*-*	*21*	*10*	*11*
3. Intangible fixed assets	3	-	-	-	3	3	-
- *Incorporation costs*	*3*	*-*	*-*	*-*	*3*	*3*	*-*

(*) including provisions.

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 72 million (2001: EUR 66 million).

note 10 | 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.

note 11 | Transactions with group undertakings and subordinated claims

As at 31 December 2002 (2001), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

(EUR million)	LOANS AND ADVANCES TO ASSOCIATED UNDERTAKINGS	LOANS AND ADVANCES TO UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
ASSET ITEMS		
Loans and advances	2 618	118
to credit institutions	(2 515)	(184)
Loans and advances	73	2
to customers	(323)	(2)
Bonds and other	1	-
fixed-income securities	(4)	(-)

(EUR million)	AMOUNTS OWED TO ASSOCIATED UNDERTAKINGS	AMOUNTS OWED TO UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
LIABILITY ITEMS		
Amounts owed to	2 215	57
credit institutions	(2 460)	(76)
Amounts owed to	160	3
customers	(177)	(3)

Subordinated claims are as follows:

(EUR million)	TOTAL OF SUBORDINATED CLAIMS	OF WHICH: AGAINST ASSOCIATED UNDERTAKINGS	OF WHICH: AGAINST UNDERTAKINGS IN WICH THE BANK HAS A PARTICIPATING INTEREST
1. Loans and advances	123	123	-
to credit institutions	(144)	(144)	(-)
2. Bonds and other	3	-	-
fixed-income securities	(9)	(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 insolvency.

note 12 | Debts evidenced by certificates

As at 31 December 2002, the amount of cash certificates and bonds in circulation maturing in 2003 was EUR 282 million (2001: EUR 611 million for those maturing in 2002).

note 13 | 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 14 | Subordinated liabilities

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 following subordinated loans were outstanding as at 31 December:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	ACCOUNTING BALANCE AS AT 31.12.2002	ACCOUNTING BALANCE AS AT 31.12.2001
Subordinated debenture loan	8.875%	13/08/92	13/08/02	-	12.4
Subordinated debenture loan	8.000%	29/07/94	25/06/02	-	37.2
Subordinated debenture loan	7.875%	19/07/94	19/07/04	24.8	24.8
Subordinated debenture loan	8.625%	14/10/94	14/10/04	24.8	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	6.000%	28/08/96	28/08/03	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	53.8
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
				1 025.6	1 075.2

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2002, EUR 27 million had been issued (2001: EUR 20 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 liabilities subordinated during the financial year amounts to EUR 68 million (2001: 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.

note 16 | Capital

As at 31 December 2001 and 2002, 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 2002, the Bank held 905 (2001: 9 412) of its own shares.

note 17 | Development of share capital, reserve and results brought forward

(EUR million)	CAPITAL	SHARE PREMIUM	LEGAL RESERVE	RESERVE FOR OWN SHARES	FREE RESERVES (*)	PROFIT BROUGHT FORWARD	PROFIT FROM THE FINANCIAL YEAR	DIVIDENDS (D) AND DIREC-TORS' FEES (T)
Balance as at 1 January 2002	189.0	354.6	18.9	0.8	454.0	0.5	159.1	
Division of profit according to the AGM of 24 April 2002						-0.5		102.7 (D)
					55	0.4	-159.1	1.5 (T)
Transfer/(carry over) to the reserves for own shares				-0.7	0.7			
Profit for 2002							171.4	
Balance as at 31 December 2002	189.0	354.6	18.9	0.1	509.7	0.4	171;4	

(*) A total amount of EUR 74.5 million has been allocated to the special reserve for wealth tax.

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.

note 18 | Assets pledged as collateral security

As at 31 December 2002 (2001) 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	1 424 (1 380)	Assets pledged by the Bank as collateral security for its activities with the Luxembourg Central Bank
Bonds and other fixed-income securities	30 (7)	Assets pledged by the Bank as collateral security for its activities with the central banks and clearing houses

note 19 | Contingent liabilities

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

EUR million	TOTAL CONTINGENT LIABILITIES 2002	TOTAL CONTINGENT LIABILITIES 2001	OF WICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2002	OF WICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2001
Guarantees and other direct credit substitutes	602	634	418	388
Counter-guarantees	6	7	-	-
Documentary credits	1	-	1	-
	609	641	419	388

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

note 20 | Commitments

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

EUR million	TOTAL COMMITMENTS 2002	TOTAL COMMITMENTS 2001	OF WICH: COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2002	OF WICH: COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2001
Forward purchase of assets	1	2	-	-
Forward sale of assets	12	-	-	-
Amounts to be paid up in respect of securities, participating interests and shares in associated undertakings	35	35	-	-
Unused confirmed credits	1 200	1 223	51	52
Settlement of spot exchanges	93	675	11	38
Others	4	-	-	-
	1 345	1 935	62	90

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 21 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 22 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 2002**, (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					
					2002	2001					2002	2001
	<=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
notional value in EUR million												
Categories of instruments												
Interest rate instruments												
Futures	-	-	-	-	-	-	-	-	-	-	-	4
Swaps	6 796	6 308	3 854	1 052	18 011	26 053	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-	-	-
					18 011	26 053					-	4
Gold/currency Instruments												
Futures	219	20	4	-	243	-	-	-	-	-	-	-
Swaps	6 111	3 425	459	216	10 211	16 238	-	-	-	-	-	-
Options	-	48	-	-	48	52	-	-	-	-	-	-
					10 502	16 290					-	-
Instruments sur titres de propriété												
Futures	32	-	-	-	32	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	7	33	12	-	52	70
					32	-					52	70
Credit derivatives	-	-		-	-	-	-	-	-	-	-	-
Total					28 544	42 343					52	74

The table below gives **the breakdown of trading book derivatives as at 31 December 2002**, (as defined in note 4), by category of instrument and residual maturity. All trading book derivatives are traded over the counter. The great majority of these operations are linked to transactions of the same type but in the opposite direction, thus cancelling out any market risk for the Bank.

This table shows only operations to be delivered.

DERIVATIVES (trading book)	OTC									
									2002	2001
	<=3 MONTHS		>3 MONTHS <=1 YEAR		>1 YEAR <=5 YEARS		>5 YEARS		TOTAL	
notional in EUR million	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2002	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2002	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2002	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2002	NOTIONAL VALUE	
Categories of instruments	-	-	-	-	-	-	-	-	-	-
Interest rate instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	4	1	159	2	370	14	302	24	836	523
Options	10	-	-	-	-	-	-	-	10	11
									846	**534**
Gold/currency instruments										
Futures	270	11	153	18	-	-	-	-	423	-
Swaps	23	-	35	4	31	4	-	-	89	225
Options	-	-	-	-	-	-	-	-	-	-
									512	**225**
Equity instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									-	**-**
Credit derivatives	17	-	20	-	69	-	-	-	106	135
Total									**1 464**	**894**

The result of the evaluation at market price of all derivatives (from both trading and non-trading book) is a positive amount of EUR 96 million.

note 23 | 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.

ASSET ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Cash and loans and advances to credit institutions	European Union	8 581	9 302
	Other zone A countries	580	433
	Others	70	228
		9 230	**9 963**
Loans and advances to customers	European Union	1 143	1 570
	Other zone A countries	248	282
	Supranational outstandings	-	2
	Others	74	108
		1 465	**1 962**
Treasury bills and transferable securities, excluding participating interests and interests in associated undertakings	European Union	8 658	7 768
	Other zone A countries	1 934	936
	Supranational outstandings	61	86
	Others	235	279
		10 888	**9 069**
Total		**21 583**	**20 995**

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

LIABILITY ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Amounts owed to credit institutions	European Union	4 319	4 519
	Other zone A countries	2 815	3 077
	Others	509	771
		7 643	**8 366**
Amounts owed to customers	European Union	10 576	8 293
	Other zone A countries	391	451
	Supranational outstandings	26	17
	Others	457	764
		11 451	**9 525**
Total		**19 094**	**17 892**

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

OFF-BALANCE-SHEET ITEMS (accounting value) EUR million	COUNTRY ZONE	2002	2001
Contingent liabilities	European Union	587	607
	Other zone A countries	16	19
	Others	6	16
		609	641
Commitments: unused confirmed credits	European Union	1 154	1 180
	Other zone A countries	32	29
	Others	14	13
		1 200	1 223

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

DERIVATIVES (notional value) EUR million	COUNTRY ZONE	2002	2001
Interest rate instruments			
Futures	European Union	-	4
	Other zone A countries	-	-
	Others	-	-
Swaps	European Union	15 453	17 799
	Other zone A countries	3 393	8 777
	Others	-	-
Options	European Union	10	11
	Other zone A countries	-	-
	Others	-	-
		18 856	**26 591**
Gold/currency instruments			
Futures	European Union	614	-
	Other zone A countries	41	-
	Others	12	-
Swaps	European Union	7 259	11 590
	Other zone A countries	3 034	4 558
	Others	7	314
Options	European Union	-	-
	Other zone A countries	48	52
	Others	-	-
		11 015	**16 514**

DERIVATIVES - CONT'D (notional value) EUR million	COUNTRY ZONE	2002	2001
Equity instruments			
Futures	European Union	8	-
	Other zone A countries	23	-
	Others	-	-
Swaps	European Union	-	-
	Other zone A countries	-	-
	Others	-	-
Options	European Union	52	71
	Other zone A countries	-	-
	Others	-	-
		84	71
Credit derivatives	European Union	84	103
	Other zone A countries	22	32
	Others	-	-
		106	135

note 24 | Breakdown of assets and off-balance sheet items

The table below gives the breakdown of asset items by economic sectors as at 31 December

ECONOMIC SECTORS (accounting value) EUR million	ASSET ITEM	2002	2001
Public sector	Debts	8	10
	Treasury bills and fixed-income securities	9 446	7 243
Total Public sector		*9 454*	*7 253*
Banks			
Central banks	Debts	192	22
	Fixed-income securities	42	52
		234	75
Multilateral development banks	Fixed-income securities	61	86
Other banks	Debts	9 039	9 939
	Fixed-income securities	207	330
	Variable-yield securities (*)	2	2
		9 247	10 270
Total banks		*9 542*	*10 431*
Financial institutions			
UCI	Debts	61	164
	Variable-yield securities (*)	231	343
		293	507
Holdings	Debts	252	208
	Fixed-income securities	4	13
	Variable-yield securities (*)	2	2
		258	222
Other financial institutionss	Debts	721	1 039
	Fixed-income securities	329	420
	Variable-yield securities (*)	9	10
		1 059	1 469
Total Financial institutions		*1 609*	*2 198*

(*) ex interests and shares in associated undertakings.

ECONOMIC SECTORS - CONT'D (accounting value) EUR million	ASSET ITEM	2002	2001
Other sectors			
Agriculture, industry, construction	Debts	58	55
	Fixed-income securities	304	329
	Variable-yield securities (*)	8	10
		370	395
Commerce, catering, accommodation	Debts	34	33
	Fixed-income securities	25	8
	Variable-yield securities (*)	1	1
		60	42
Transport and communications	Debts	38	92
	Fixed-income securities	49	50
	Variable-yield securities (*)	3	-
		90	142
Other companies	Debts	172	234
	Fixed-income securities	147	159
	Variable-yield securities (*)	17	11
		336	404
Others	Debts	121	130
		121	130
Total other sectors		*977*	*1 113*
Total per asset item	Debts	*10 696*	*11 926*
	Treasury bills and fixed-income securities	*10 614*	*8 690*
	Variable-yield securities (*)	*273*	*379*
Overall total		*21 583*	*20 995*

(*) ex interests and shares in associated undertakings.

The table below gives the breakdown of contingent liabilities and unused credit lines granted by economic sector as at 31 December.

ECONOMIC SECTORS (accounting value) EUR million	OFF-BALANCE-SHEET ITEMS	2002	2001
Banks			
Other banks	Contingent liabilities	310	317
	Credit lines granted	947	952
Total banks		*1 257*	*1 269*
Financial establishments			
UCI	Credit lines granted	54	65
Holdings	Contingent liabilities	-	-
	Credit lines granted	36	15
		36	15
Other financial establishments	Contingent liabilities	233	233
	Credit lines granted	59	67
		292	300
Total Financial establishments		*382*	*380*
Other sectors			
Agriculture, industry, construction	Contingent liabilities	15	22
	Credit lines granted	16	26
		31	48
Commerce, accommodation, catering	Contingent liabilities	1	1
	Credit lines granted	6	10
		6	11
Transport and communications	Contingent liabilities	1	1
	Credit lines granted	-	-
		1	1
Other companies	Contingent liabilities	48	64
	Credit lines granted	70	71
		118	135
Others	Contingent liabilities	2	3
	Credit lines granted	12	16
		13	19
Total other sectors		*169*	*214*
Total by off-balance-sheet item	Contingent liabilities	*610*	*641*
	Credit lines granted	*1 199*	*1 222*
Overall total		*1 809*	*1 863*

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

DERIVATIVES (notional value) EUR million	ECONOMIC SECTOR	2002	2001
Interest rate instruments			
Futures	Other financial establishments	-	4
Swaps	Other banks	18 434	26 047
	Other financial establishments	211	274
	UCI	10	10
	Holdings	154	165
	Other companies	37	40
	Other services	-	40
Options	Other financial establishments	10	11
		18 856	**26 591**
Gold/currency instruments			
Futures	Other banks	391	-
	Other financial establishments	41	-
	UCI	198	-
	Holdings	16	-
	Other companies	5	-
	Other services	1	-
	Physical person	14	-
Swaps	Other banks	9 449	15 093
	Other financial establishments	310	624
	UCI	540	562
	Holdings	-	156
	Other companies	2	8
	Other services	-	8
	Physical person	-	11
Options	Other banks	48	52
		11 015	**16 514**
Equity instruments			
Futures	Other financial establishments	32	-
Options	Other banks	30	44
	Other financial establishments	22	27
		84	**71**
Credit derivatives	Other banks	106	135
		106	**135**

note 25 | 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 2002 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 No. 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.

	2002					2001
COUNTERPARTIES CREDIT RATING (S&P RATINGS) EUR milliion	NOTIONAL AMOUNTS	CURRENT REPLACEMENT COSTS	POTENTIAL FUTURE REPLACEMENTS COSTS	TOTAL REPLACEMENTT COSTS	NET EXPOSURE TO RISK	NET EXPOSURE TO RISK
AAA	1 065	11	3	14	4	9
AA+	730	11	7	18	4	4
AA	1 329	35	8	43	9	72
AA -	8 377	167	30	197	42	50
A+	9 691	315	71	386	77	58
A	639	11	4	15	3	15
A-	815	34	6	40	8	1
BBB+	-	-	-	-	-	1
BBB-	-	-	-	-	-	1
BB+	-	-	-	-	-	-
Not rated	5 898	60	33	93	27	26
TOTAL	28 544				174	237

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

note 26 | Exchange positions

Exchange positions as at 31 December 2002 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 IN EUR MILLION 2002	POSITIONS NETTES POSITIONS IN IN EUR MILLION 2001
AUD	0.4	(0.2)	0.1	0.1	(0.1)
CAD	179.1	(178.7)	0.4	0.2	(0.2)
CHF	43.9	(43.9)	0.0	0.0	0.3
CZK	(550.1)	554.5	4.4	0.1	0.1
DKK	523.1	(517.3)	5.7	0.8	(0.8)
GBP	94.3	(78.9)	15.4	23.7	25.9
HKD	(41.1)	41.1	0.0	(0.0)	0.3
HUF	(127 003.3)	156 798.6	29 795.3	126.1	47.5
JPY	(45 425.0)	45 448.6	23.6	0.2	(25.8)
NOK	513.9	(516.0)	(2.1)	(0.3)	(0.4)
NZD	3.9	(3.6)	0.3	0.2	(0.3)
PLN	(3 102.9)	3 343.6	240.7	59.9	68.5
SEK	236.0	(146.6)	89.3	9.8	0.6
SKK	29.5	(28.2)	1.3	0.0	0.0
USD	981.7	(1 050.4)	(68.7)	(65.5)	(60.3)
ZAR	11.4	(10.2)	1.3	0.1	0.0

Positions in HUF and PLN fall under acquisitions of government bonds, acquired in order to benefit from the convergence effects of these currencies preparing to enter the euro.

The USD position is a result of the Bank's operations to secure the EUR countervalue of future profits in USD.

note 27 | Other operating income

The amounts recorded under this item essentially represent income from the activities of the Bank but which are not related to the current financial year. They also cover rent from buildings owned by the bank. recovery of provisions for taxes relating to earlier fiscal years. as well as the recovery of various provisions previously set up. This item also covers the capital gains on the sale of holdings: as at 31 December 2002, it includes the capital gain of EUR 39.3 million on the sale of the holding in Clearstream (formerly Cedel International).

note 28 | Other operating charges

The amounts under this item are essentially the provision for the Association for the Guarantee of Deposits, Luxembourg and transfers to the provision for risk.

note 29 | Principal subsidiaries and associated undertakings

As at 31 December 2002, 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%	34 007 935 GBP	-408 734 GBP	31/12/2002
Kredietbank (Suisse) S.A. – Switzerland	99.99%	139 824 530 CHF	17 562 170 CHF	31/12/2002
KBL Bank Ireland Unltd – Dublin (*)	100.00%	129 761 236 EUR	7 894 567 EUR	31/12/2002
KBL France – France	100.00%	65 562 000 EUR	-9 016 000 EUR	31/12/2002
KB Luxembourg (Monaco) S.A.– Monaco	100.00%	8 139 204 EUR	1 003 453 EUR	31/12/2002
Banque Continentale du Luxembourg S.A. – Luxembourg	100.00%	79 195 677 EUR	7 075 019 EUR	31/12/2002
Financière et Immobilière S.A. – Luxembourg	100.00%	2 417 279 EUR	774 076 EUR	31/12/2002
Banco Urquijo S.A. – Spain	89.68%	232 449 691 EUR	10 340 598 EUR	31/12/2002
KB Lux Immo S.A. (ex-KBL Founder Venture S.C.A.) – Luxembourg	100.00%	41 404 518 EUR	-110 591 EUR	31/12/2002
KBL Founder S.A. – Luxembourg	100.00%	440 846 EUR	16 298 EUR	31/12/2002
KB Ré S.A. – Luxembourg	100.00%	14 638 855 EUR	16 212 418 EUR	31/12/2002
Renelux S.A. – Luxembourg	100.00%	1 487 361 EUR	- EUR	31/12/2002
Merck Finck & Co – Germany	100.00%	170 040 596 EUR	951 871 EUR	31/12/2002
European Fund Administration S.A. (EFA) – Luxembourg	39.00%	12 675 630 EUR	-5 461 455 EUR	31/12/2002
Kredietrust Luxembourg S.A. (KTL) – Luxembourg	100.00%	8 415 319 EUR	8 583 498 EUR	31/12/2002
Fumagalli Soldan SIM spa – Milan	80.00%	10 150 334 EUR	-2 717 140 EUR	31/12/2002

(*): direct and indirect percentage holding

note 30 | Number of employees

During the fiscal year, the average number of persons employed by the Bank can be broken down as follows:

	2002 NUMBER	2001 NUMBER
Senior Management	31	34
Managerial Staff	132	120
Clerical staff	1 116	1 120
Workers	7	8
	1 286	1 282

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

SITUATION AS AT 31.12.2002 EUR	REMUNERATION PAID IN 2002 DUE TO POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GIVEN	ADVANCES OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE RETIREMENT PENSIONS
Board of Directors	1 581 833 (25)	3 526 933 (13)	2 692 358 (13)	63 854 (2)	- (-)
Management	8 621 428 (31)	3 641 877 (18)	2 330 104 (18)	6 980 (3)	440 648 (31)

SITUATION AS AT 31.12.2001 EUR	REMUNERATION PAID IN 2001 DUE TO POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GIVEN	ADVANCES OUTSTANDING	GUARANTEES OUTSTANDING	COMMITMENTS TO PROVIDE RETIREMENT PENSIONS
Board of Directors	1 606 237 (26)	5 861 588 (14)	4 086 925 (14)	29 699 (2)	- (-)
Management	8 576 576 (34)	3 704 727 (21)	2 426 568 (21)	6 544 (2)	938 090 (34)

( ): number of persons concerned

note 32 Extraordinary charges

As part of its cost-efficiency policy, the Bank also decided to implement early retirement measures. The cost of these measures for the Bank are estimated at EUR 38.9 million, already provided for in this financial year, under the item “Extraordinary charges”.

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 a short-term balance sheet.

In the case of the insolvency of a member establishment, the AGDL protects all monetary 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.

note 34 | Provision for costs of switching to the euro

During the financial years 1996 to 1998 the Bank set up provisions to cover the costs relating to switching to the euro these provisions amounted to 2% of the general administrative costs for the various years.

These provisions were entered under the item "Provisions for liabilities and charges other provisions".

From 1999 onwards for a period of four years the Bank will gradually repay these provisions. The balance of the provision for the cost of switching to the euro was zero as at 31 December 2002.

note 35 | 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 have been charged by a Belgian magistrate with offences relating to fraud as a result of their professional activities at the bank.

The outcome of these charges is not certain and it is impossible to foresee their possible impact on the financial situation 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.

Almanij S.A.

KBC - BANCASSURANCE GROUP

A major player on the Belgian and central European market, the Bancassurance group comprises KBC Bank, KBC Asset Management and KBC Assurances. It employs more than 45 000 staff and serves some 9 million customers.

KBL GROUP EUROPEAN PRIVATE BANKERS

The driving force of Private Banking within the Almanij Group, KBL Group European Private Bankers groups together banks and finance companies comprising some 3 900 staff across Europe.

ALMAFIN S.A.

Almafin is a financial services company specialised in the fields of real estate, leisure and rental.

GEVAERT S.A.

Gevaert is an international investment company.

— KBC Bank S.A.
— KBC Asset Management S.A.
— KBC Assurances S.A.

— Banco Urquijo S.A.
— Brown, Shipley & Co. Ltd
— Merck Finck & Co, Privatbankiers
— KBL France
  — Europe Egide Finance S.A.
  — Fidef Ingénierie Patrimoniale S.A.
  — Kempf S.A.
  — Michaux Gestion S.A.
— Fumagalli Soldan SIM spa
— Kredietbank S.A. Luxembourgeoise
  — Banque Continentale du Luxembourg S.A.
  — Kredietrust Luxembourg S.A.
— Kredietbank (Suisse) S.A.
  — BLP Banque de Portefeuille S.A.
  — Jacxsens & Partner Vermögensverwaltungs AG
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This annual report is available in French, Dutch and English.

Only the French version is authentic.

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