



## KBC BANK NV

*(incorporated with limited liability under the laws of Belgium)*

£150,000,000

### DIRECTLY ISSUED PERPETUAL DEBT SECURITIES

having the benefit of a Support Agreement entered into with

## KBC GROUP NV

*(incorporated with limited liability under the laws of Belgium)*

*(to be consolidated and form a single series with the £200,000,000 Directly Issued Perpetual Debt Securities issued on 19 December 2003 and the £175,000,000 Directly Issued Perpetual Debt Securities issued on 3 November 2004)*

**Issue Price: 92.773 per cent.**

**plus 297 days' accrued interest at the rate of 6.202 per cent. per annum in respect of the period from and including 19 December 2006 to but excluding 12 October 2007**

The £150,000,000 Directly Issued Perpetual Debt Securities (the "Securities") are directly-issued securities of KBC Bank NV (the "Issuer"), a limited liability company incorporated under the laws of Belgium. The Securities will have the benefit of a Support Agreement entered into by the Issuer's holding company, KBC Group NV (formerly, KBC Bank and Insurance Holding Company NV) ("KBC Holding").

Upon issue, the Securities will be a further issuance of, and will be consolidated and form a single series for all purposes with, the Issuer's existing £200,000,000 Directly Issued Perpetual Debt Securities issued on 19 December 2003 and the Issuer's existing £175,000,000 Directly Issued Perpetual Debt Securities issued on 3 November 2004 (together, the "Existing Securities").

The Securities will bear interest (i) from (and including) 19 December 2006 to (but excluding) 19 December 2019 at the rate of 6.202 per cent. per annum payable annually in arrear on 19 December of each year, commencing on 19 December 2007 and ending on 19 December 2019 and (ii) from (and including) 19 December 2019 at the rate of 1.93 per cent. per annum above the London interbank offered rate for three month Sterling deposits payable quarterly in arrear on 19 March, 19 June, 19 September and 19 December of each year commencing on 19 March 2020.

If the Issuer gives a Deferral Notice stating that it will defer the payment of interest that would have been payable on an Interest Payment Date or any portion thereof, no interest amount or less than the full interest amount will be payable on such Interest Payment Date. The Issuer may give a Deferral Notice in its sole discretion, but if before or after giving effect to any interest amounts, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer, it is required to give a Deferral Notice. Notwithstanding the foregoing and subject to certain exceptions, Deferred Coupons will become mandatorily payable upon any payment of dividends on Junior Securities or Parity Securities of the Issuer or KBC Holding or any redemption, repurchase or other acquisition by the Issuer or KBC Holding of its Junior Securities or Parity Securities. The Issuer will generally be required to satisfy its obligation to pay Deferred Coupons only in accordance with the Alternative Coupon Payment Method. See "Terms and Conditions of the Securities – Deferral of Coupons" and "Terms and Conditions of the Securities – Alternative Coupon Payment Method".

The Securities are not redeemable at the option of the holders at any time and are not redeemable at the option of the Issuer prior to the First Call Date, except in certain circumstances set out herein. Subject to compliance with applicable regulatory requirements, the Securities may be redeemed at the option of the Issuer, in whole (but not in part), on the First Call Date or on any subsequent Interest Payment Date. Upon the occurrence of certain events, the Issuer may convert the Securities, in whole (but not in part), into Conversion Upper Tier 2 Instruments or redeem the Securities. In addition, upon the occurrence of a Supervisory Event or an event resulting in a general concursus creditorum on the assets of the Issuer, the Securities shall be converted into Profit-Sharing Certificates. See "Terms and Conditions of the Securities – Conversion into Conversion Upper Tier 2 Instruments and Redemption".

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States.

The Securities will be in bearer form and in the denomination of £1,000. The Securities shall initially only be available for sale in minimum amounts of £500,000, as described in more detail under "Subscription and Sale". The Securities will be in the form of a global certificate (the "Global Certificate") without interest Coupons, which will be deposited on or around 12 October 2007 (the "New Issue Date") with the National Bank of Belgium (the "NBB"), as operator of the X/N book-entry clearance and settlement system (the "X/N System"). Ownership of beneficial interests in the Securities will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by the X/N System, Euroclear Bank SA/NV, ("Euroclear"), Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") and their respective participants. To the extent permitted by law, the Global Certificate will be exchangeable in certain limited circumstances, in whole, but not in part, for Securities in definitive form in the denomination of £1,000 each and with interest Coupons attached. See "Summary of Provisions Relating to the Securities in Global Form".

This Prospectus has been approved by the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"), which is the Luxembourg competent authority for the purpose of Article 5 of Directive 2003/71/EC (the "Prospectus Directive") as a Prospectus. This Prospectus will, when published, constitute a "prospectus" for the purposes of the Prospectus Directive, which implement the Prospectus Directive in Luxembourg. Application has been made to the Luxembourg Stock Exchange for the Securities to be admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange (within the meaning of Directive 93/22/EEC). This Prospectus has been prepared on the basis that any offer of Securities in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Securities.

Investing in the Directly Issued Perpetual Debt Securities of the Issuer involves certain risks. See "Risk factors".

*Joint-Lead Managers and Joint Bookrunners*

**HSBC**

**LEHMAN BROTHERS**

*Joint-Lead Manager*

**KBC BANK NV**

10 October 2007

This Prospectus has been prepared on the basis that any offer of Securities in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Securities. Accordingly, any person making or intending to make an offer in that Relevant Member State of Securities which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer, KBC Holding or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, KBC Holding or the Managers have authorised, nor do they authorise, the making of any offer of Securities in circumstances in which an obligation arises for the Issuer, KBC Holding or the Managers to publish or supplement a prospectus for such offer.

Each of the Issuer and KBC Holding has confirmed to the Managers that this Prospectus contains all information regarding the Issuer and KBC Holding, the Securities, the Support Agreement, the Profit Sharing Certificates and the Contingent Guarantee Agreement which is (in the context of the issue of the Securities) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) KBC Holding are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. Each of the Issuer and KBC Holding accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of their knowledge is in accordance with the facts and contains no information likely to affect its import.

Information contained in this Prospectus under the heading “*Description of the Issuer*” (“*Risk Management*”) relating to its indirect sub-prime lending exposure was derived from a report published by Merrill Lynch dated 20 July 2007. Neither the Issuer nor KBC Holding accepts any responsibility for the accuracy of such information, nor have the Issuer or KBC Holding independently verified any such information. The Issuer and KBC Holding confirm that this information has been accurately reproduced, and so far as the Issuer and KBC Holding are aware and are able to ascertain from information available from Merrill Lynch, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Neither the Issuer nor KBC Holding has authorised the making or provision of any representation or information regarding the Issuer, KBC Holding or the Securities other than as contained in this Prospectus or as approved for such purpose by the Issuer and KBC Holding. Any such representation or information should not be relied upon as having been authorised by the Issuer, KBC Holding or the Managers.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any of the Securities shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or KBC Holding since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, the Securities.

The distribution of this Prospectus and the offering, sale and delivery of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, KBC Holding and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Securities and on distribution of this Prospectus and other offering material relating to the Securities, see “*Subscription and Sale*”.

In particular, the Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered in the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to “EUR”, “euro” or “€” are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, and references to “£”, “pounds sterling” and “Sterling” are to the lawful currency of the United Kingdom. References to “billions” are to thousands of millions.

**In connection with the issue of the Securities, HSBC Bank plc and Lehman Brothers International (Europe) (the “Stabilising Managers”) (or persons acting for the Stabilising Managers) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Managers (or persons acting on behalf of the Stabilising Managers) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

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## SUMMARY

*This summary must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference. No civil liability attaches to the persons responsible for this summary in any Member State of the European Economic Area which has implemented the Prospectus Directive solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus, including any information incorporated by reference. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.*

*Words and expressions defined in the “Terms and Conditions of the Securities” below or elsewhere in this Prospectus have the same meanings in this summary.*

<b>The Issuer:</b>	<p>Summary description of KBC Bank NV</p> <p>KBC Bank NV is a multi-channel bank that caters primarily for private persons and small and medium-sized companies. Its geographic focus is on Europe. In its two home markets (Belgium and Central Eastern Europe), KBC Bank NV has a very important to even leading position. In the rest of the world, KBC Bank NV has a selective presence in certain countries or areas. KBC Bank NV’s core business is retail and private bancassurance (including asset management) in its two home markets, though it is also active in services to corporations and market activities. See “<i>Description of the Issuer</i>”.</p>
<b>KBC Holding:</b>	<p>Summary description of KBC Holding</p> <p>KBC Holding is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC Holding focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provisions of services to business customers, and occupies significant, even leading positions in these two home markets. The group is also active in a selection of other countries in Europe in private banking and the provision of services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions. KBC Holding has three main direct subsidiaries, KBC Bank, KBC Insurance and Kredietbank SA Luxembourgeoise (“<b>KBL</b>”). See “<i>Description of KBC Holding</i>”.</p>
<b>Joint Lead Managers:</b>	<p>HSBC Bank plc, KBC Bank NV and Lehman Brothers International (Europe)</p>
<b>The Securities:</b>	<p>£150,000,000 Directly Issued Perpetual Debt Securities</p>
<b>Issue Price:</b>	<p>92.773 per cent. of the principal amount of the Securities.</p>
<b>Issue Date:</b>	<p>Expected to be on or about 12 October 2007.</p>
<b>Use of Proceeds:</b>	<p>The proceeds of the issue of the Securities will be used by the Issuer to increase its regulatory capital and for general corporate purposes. See “<i>Use of Proceeds</i>”.</p>

<b>Status:</b>	The payment obligations of the Issuer under the Securities will rank behind the claims of holders of Senior and Subordinated Indebtedness of the Issuer, <i>pari passu</i> with claims of holders of Parity Securities and before the claims of holders of Junior Securities of the Issuer. In the event of a Supervisory Event or a general concursus creditorum on the assets of the Issuer, the Securities will be converted automatically into Profit-Sharing Certificates. The Securities will have the benefit of a Support Agreement entered into by KBC Holding. See “ <i>Description of the Support Agreement</i> ”.
<b>Form and Denomination:</b>	The Securities will be issued in bearer form in the denomination of £1,000. The Securities shall initially only be available for sale in minimum amounts of £500,000.
<b>Interest:</b>	The Securities will bear interest (i) from (and including) 19 December 2006 to (but excluding) 19 December 2019 at the rate of 6.202 per cent. per annum payable annually in arrear on 19 December of each year, commencing on 19 December 2007 and ending on 19 December 2019 and (ii) from (and including) 19 December 2019 at the rate of 1.93 per cent. per annum above the London interbank offered rate for three month Sterling deposits payable quarterly in arrear on 19 March, 19 June, 19 September and 19 December of each year commencing on 19 March 2020.
<b>Deferral of Interest:</b>	If the Issuer gives a Deferral Notice stating that it will defer the payment of interest that would have been payable on an Interest Payment Date or any portion thereof, no interest amount or less than the full interest amount will be payable on such Interest Payment Date. The Issuer may give a Deferral Notice in its sole discretion, but if before or after giving effect to any interest amounts, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer, it is required to give a Deferral Notice. Notwithstanding the foregoing and subject to certain exceptions, Deferred Coupons will become mandatorily payable upon any payment of dividends on Junior Securities or Parity Securities of the Issuer or KBC Holding or any redemption, repurchase or other acquisition by the Issuer or KBC Holding of its Junior Securities or Parity Securities. The Issuer will generally be required to satisfy its obligation to pay Deferred Coupons only in accordance with the Alternative Coupon Payment Method. See “ <i>Terms and Conditions of the Securities – Deferral of Coupons and Alternative Coupon Payment Method</i> ”.
<b>Optional Redemption:</b>	The Securities are not redeemable at the option of the holders at any time and are not redeemable at the option of the Issuer prior to the First Call Date, except in certain circumstances set out herein. Subject to compliance with applicable regulatory requirements, the Securities may be redeemed at the option of the Issuer, in whole (but not in part), on the First Call Date or on any subsequent Interest Payment Date. Upon the occurrence of certain events, the Issuer may convert the Securities, in whole (but not in part), into Conversion Upper Tier 2 Instruments or redeem the Securities. In addition, upon the occurrence of a Supervisory Event or an event resulting in a general concursus creditorum on the assets of the Issuer, the Securities shall be converted into Profit-Sharing

Certificates. See “*Terms and Conditions of the Securities – Conversion into Conversion Upper Tier 2 Instruments and Redemption*”, “*Description of the Contingent Guarantee Agreement*” and “*Terms and Conditions of the Profit-Sharing Certificates*”.

<b>Rating:</b>	The Securities are expected to be rated A1 by Moody’s Investors Services Limited, A by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc. and A+ by Fitch Ratings. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Securities.
<b>Withholding Tax:</b>	All payments of principal and interest in respect of the Securities will be made without withholding taxes of the Kingdom of Belgium, unless the withholding is required by a Belgian taxing authority. In such event (subject to customary exceptions), the Issuer will pay such additional amounts as will be necessary to ensure that the net amount received by Holders and Couponholders, after such withholding, will equal the amount which would have been receivable in the absence of such withholding.
<b>Governing Law:</b>	The Securities, the Securities Agency Agreement, the Deed of Covenant and the Subscription Agreement will be governed by English law. The Support Agreement, the Agency Agreement and the Contingent Guarantee Agreement will be governed by Belgian law.
<b>Listing and Admission to Trading:</b>	Application has been made for the Securities to be admitted to listing on the Official List and admitted to trading on the Luxembourg Stock Exchange’s Regulated Market.
<b>Clearing Systems:</b>	X/N System and Euroclear and Clearstream, Luxembourg
<b>Selling Restrictions:</b>	For a description of certain restrictions on offers, sales and deliveries of Securities and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom and Luxembourg, see “ <i>Subscription and Sale</i> ”.
<b>Risk Factors:</b>	<p>Summary of Risks Relating to the Issuer and KBC Holding</p> <p>If the Issuer’s financial condition were to deteriorate and to the extent that funds are not available through the Support Agreement, the Holders of Securities and Couponholders could suffer direct and materially adverse consequences. The Issuer is not prohibited from issuing further debt or securities ranking <i>pari passu</i> with or senior to the Securities. The Belgian Banking, Finance and Insurance Commission (<i>Commissie Voor Bank-, Finance- en Assucantiewezzen</i>) (the “CBFA”, formerly the CBF) regulatory authorities in the European Union and regulatory authorities in other countries have oversight powers over the Issuer and in varying degrees over one or more entities of the KBC Group, and are empowered to make determinations or take decisions with respect to any of such entities or a portion of their operations or assets. The KBC Group’s business activities are dependant on the level of</p>



banking, finance and financial services required by its customers. As a result of its business activities, the KBC Group is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. The KBC Group is subject to financial services laws, regulations, administrative actions and policies in each location that it operates.

#### Summary of Risks Relating to KBC Holding

KBC Holding is a financial holding company which conducts its operations through direct and indirect subsidiaries from which it derives its principal sources of funds. KBC Holding's income and profitability is therefore dependant on the profitability of its subsidiaries.

#### Summary of Risk Relating to the Securities

The Securities are subject to risks relating to: the receipt of interest payments; redemption of the Securities on the occurrence of certain specified events (whether before or after the First Call Date); mandatory conversion of the Securities upon the occurrence of a Supervisory Event; the Holders' rights under the Support Agreement; the absence of voting rights of Holders of the Securities and the reliance of Holders on the procedures of the clearing systems for transfer, payment and communication with the Issuer.

#### **Financial Information:**

See "*Description of KBC Holding—Selected Financial Information*".



## **RISK FACTORS**

*Prior to making an investment decision, prospective purchasers of the Securities should consider carefully, in the light of the circumstances and their investment objectives, the information contained in this entire Prospectus. Prospective purchasers should nevertheless consider, among other things, the investment considerations set out below. Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Prospectus have the same meanings in this section.*

### **Risk Relating to the Issuer and the KBC Group**

#### ***Financial Condition of the Issuer***

If the Issuer’s financial condition were to deteriorate and to the extent that funds are not available through the Support Agreement, the Holders of Securities and Couponholders could suffer direct and materially adverse consequences, including elimination of cumulative Coupon payments on the Securities and, if a liquidation, dissolution or winding up of the Issuer were to occur, loss by Holders of Securities of all or part of their investment.

Furthermore, the rights of Holders of Securities under the Securities, to participate in the distribution of assets of the Issuer upon the Issuer’s liquidation or reorganisation will be effectively subordinated to all existing and future liabilities, including liabilities to depositors and trade payables, of the Issuer.

#### ***No Limitation on Issuing Further Debt***

The Issuer is not prohibited from issuing further debt or securities ranking *pari passu* with or senior to the Securities. None of the Securities, the Profit-Sharing Certificates, the Support Agreement or Contingent Guarantee Agreement limits the ability of KBC Holding to incur indebtedness or issue securities, including indebtedness or securities that rank *pari passu* with or senior to the obligations of KBC Holding under the Support Agreement. The issuance of any such further debt or securities may dilute the claim of Holders of Securities and of the Issuer under the Support Agreement.

#### ***Regulatory Restrictions***

The CBFA or its successors, regulatory authorities in the European Union and regulatory authorities in other countries have oversight powers over the Issuer and in varying degrees over one or more entities of the KBC Group. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to any of such entities or a portion of their respective operations or assets that could adversely affect the ability of the Issuer or KBC Holding to, among other things, make distributions to their respective security holders, to engage in transactions with affiliates, to purchase or transfer assets, to pay their respective obligations and to make any redemption or liquidation payments to their security holders.

#### ***Economic Activity***

KBC Bank’s business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economies that KBC Bank does business in and market interest rates at the time. As KBC Bank currently conducts the majority of its business in Belgium and Central Eastern Europe, its performance is influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in these economies will not have a material effect on KBC Bank’s future results.

## **Risks Related to the Issuer's Business**

As a result of its business activities, KBC Bank is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Failure to control these risks could result in material adverse effects on KBC Bank's financial performance and reputation.

### ***Credit Risk***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of KBC Bank's businesses. Adverse changes in the credit quality of KBC Bank's borrowers and counterparties or a general deterioration in the Belgian, Central Eastern European or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of its assets and require an increase in KBC Bank's provision for bad and doubtful debts and other provisions.

### ***Market Risk***

The most significant market risks that KBC Bank faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of KBC Bank's investment and trading portfolios. KBC Bank has implemented risk management methods to mitigate and control these and other market risks to which KBC Bank is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on KBC Bank's financial performance and business operations.

### ***Operational Risk***

KBC Bank's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of KBC Bank's suppliers or counterparties. Although KBC Bank has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

### ***Liquidity Risk***

The inability of a bank, including KBC Bank, to anticipate and provide for unforeseen decreases or changes in funding sources could have consequences on such bank's ability to meet its obligations when they fall due.

### ***Impact of Regulatory Changes***

KBC Bank is subject to financial services laws, regulations, administrative actions and policies in each location that KBC Bank operates. Changes in supervision and regulation, in particular in Belgium and Central Eastern Europe, could materially affect KBC Bank's business, the products and services offered or the value of its assets. Although KBC Bank works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of KBC Bank.

## **Position of KBC Holding within the KBC Group**

KBC Holding is a financial holding company, with direct or indirect ownership and management of shareholdings in other companies. The KBC Group's operations are conducted through direct and indirect

subsidiaries of KBC Holding. As a holding company, KBC Holding's principal sources of funds are dividends, distributions, interest payments and/or advances from its operational subsidiaries and amounts that may be raised through the issue of debt instruments. The ability of such subsidiaries to pay dividends and other amounts to KBC Holding may be subject to their profitability and to applicable restrictions on the payment of dividends and other amounts contained in relevant financing or other agreements to which those subsidiaries are party.

### **Risks Related to KBC Insurance**

As a result of its business activities, KBC Insurance is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and insurance risk. Failure to control these risks could result in material adverse effects on KBC Insurance's financial performance and reputation.

#### ***Credit Risk***

KBC Insurance faces credit risks arising from changes in credit quality and the recoverability of bonds in the investment portfolios and amounts due from reinsurers.

#### ***Market Risk***

The most significant market risks KBC Insurance faces are interest rate, foreign exchange and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the realised investment income. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies. KBC Insurance has implemented risk management methods to mitigate and control these and other market risks to which KBC Insurance is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on KBC Insurance's financial performance and business operations.

#### ***Operational Risk***

KBC Insurance's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of KBC Insurance's suppliers or counterparties. Although KBC Insurance has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

#### ***Insurance Risk***

The most significant insurance risks KBC Insurance faces are mortality and longevity risks in its life business and catastrophe and non-catastrophe non-life risks in its Property and Casualty Insurance business. Changes in the frequency of the underlying risk factors and the severity of the potential losses may affect the magnitude of KBC Insurance's liabilities and its realised technical income. KBC Insurance has implemented risk management methods to mitigate and control these insurance risks to which KBC Insurance is exposed, inter alia by reinsurance programs, and exposures are constantly measured and monitored.

#### ***Impact of Regulatory Changes***

KBC Insurance is subject to financial services laws, regulations, administrative actions and policies in each location that KBC Insurance operates. Changes in supervision and regulation, in particular in Belgium and Central Eastern Europe, could materially affect KBC Insurance's business, the products and services offered or the value of its assets. Although KBC Insurance works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of KBC Insurance.

## **Risks Related to KBL**

As a result of its business activities, KBL is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Failure to control these risks could result in material adverse effects on KBL's financial performance and reputation.

### ***Credit Risk***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of KBL's businesses. Adverse changes in the credit quality of KBL's borrowers and counterparties or a general deterioration in the Belgian or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of its assets and require an increase in KBL's provision for bad and doubtful debts and other provisions.

### ***Market Risk***

The most significant market risks KBL faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of KBL's investment and trading portfolios. KBL has implemented risk management methods to mitigate and control these and other market risks to which KBL is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on KBL's financial performance and business operations.

### ***Operational Risk***

KBL's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of KBL's suppliers or counterparties. Although KBL has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

### ***Liquidity Risk***

The inability of a bank, including KBL, to anticipate and provide for unforeseen decreases or changes in funding sources could have consequences on such bank's ability to meet its obligations when they fall due.

### ***Impact of Regulatory Changes***

KBL is subject to financial services laws, regulations, administrative actions and policies in each location that KBL operates. Changes in supervision and regulation, in particular in Luxembourg, could materially affect KBL's business, the products and services offered or the value of its assets. Although KBL works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of KBL.

## **Risks relating to the Securities**

### ***Global Credit Market Conditions***

Holders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Securities. The Issuer cannot predict when these circumstances will change and if

and when they do whether conditions of general market illiquidity for the Securities and instruments similar to the Securities will return in the future.

### ***Receipt of Interest Payments***

If the net assets of the Issuer were to decline significantly, no interest on the Securities will be payable on an Interest Payment Date to the extent that, before or after giving effect to such interest payment, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer; *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to the Issuer, interest on the Securities will be mandatorily payable on any Deferred Coupon Satisfaction Date and Mandatory Coupon Date. See “*Terms and Conditions of the Securities – Interest – Deferred Coupons*” “*Terms and Conditions of the Securities – Dividend Stopper and Mandatory Coupons*”.

The rights of holders to receive interest payments on the Securities may be limited to the extent the Issuer may give a Deferral Notice with respect to the interest that would have been payable on such Interest Payment Date or any portion thereof, in which case no interest or less than the full interest amount will be payable on an Interest Payment Date. The Issuer may give a Deferral Notice in its sole discretion and for any reason, and must give a Deferral Notice on the occurrence of a Net Assets Deficiency Event with respect to the Issuer, except that a Deferral Notice as to interest payable on a Deferred Coupon Satisfaction Date or Mandatory Coupon Date shall have no force or effect. The occurrence of a Net Assets Deficiency Event with respect to the Issuer is dependent on various circumstances, some of which are to some degree under the Issuer’s control.

The Issuer will be permitted to satisfy its obligations on a Deferred Coupon Satisfaction Date only by means of the Alternative Coupon Payment Method. The implementation of the Alternative Coupon Payment method, which requires the issuance of shares by the Issuer and KBC Holding, is dependent on actions and resolutions that will need to be taken at the time by the Issuer and KBC Holding. The Alternative Coupon Payment Method involves the sale of KBC Holding Ordinary Shares in the market. To the extent the proceeds from such sale are not adequate to pay the full amount of the Deferred Coupon then due, the Issuer is nonetheless deemed to have satisfied its obligation in full. See “*Terms and Conditions of the Securities – Alternative Coupon Payment Method*”.

### ***Special Event Redemption Risk***

Upon the occurrence of certain specified events, whether before or after the First Call Date, the Securities will be redeemable in whole (but not in part) at the option of the Issuer, subject to the prior approval of the CBFA, or its successors, if then required. Accordingly, the Securities may be (i) prematurely redeemed for cash in an amount equal to the greater of the Make Whole Amount or the Base Redemption Price, if such redemption takes place prior to the First Call Date, (ii) redeemed for cash in an amount equal to the Base Redemption Price, if such redemption takes place on or after the First Call Date or (iii) converted into Conversion Upper Tier 2 Instruments if such redemption takes place at any time before or after the First Call Date. In addition, upon the occurrence of a Supervisory Event or any event resulting in a general concursus creditorum on the assets of the Issuer, the Securities shall be converted into Profit Sharing Certificates having a total nominal value equal to the aggregate of (a) the aggregate outstanding principal amount of the Securities, (b) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period until (but excluding) the date of such conversion, (c) the unpaid Deferred Coupons, if any, and (d) Additional Amounts, if any.

### ***Securities may be held only by Eligible Investors***

The Securities may be held only by Eligible Investors who qualify for holding their Securities, directly or through intermediary financial institutions, in a so-called “X-account” in the X/N System. The main categories of Eligible Investors are as follows:

- Belgian resident corporate investors;
- Belgian pension funds;

- corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not;
- individuals who are non-residents of Belgium, unless their holding of the Securities is connected to a permanent establishment they have in Belgium; and
- non-incorporated foreign collective investment schemes (such as *beleggingsfondsen/fonds de placement*) whose units are not publicly offered or marketed in Belgium.

The main categories of non-Eligible Investors are as follows:

- Belgian resident individuals;
- Belgian non profit organisations (other than pension funds); and
- non-incorporated Belgian collective investment schemes (*beleggingsfondsen/fonds de placement*) and similar foreign funds whose units are publicly offered or marketed in Belgium.

(The above categories summarise the detailed definitions contained in Article 4 of the Belgian Royal Decree of 26 May 1994, to which investors should refer for a precise description of the relevant eligibility rules.)

### ***The Issuer's Capital and Regulatory Position; Mandatory Conversion***

If a Supervisory Event involving the Issuer were to occur or in the event of a general concursus creditorum on the assets of the Issuer, the conversion of the Securities into Profit-Sharing Certificates would be triggered. Therefore, following a Supervisory Event or a general concursus creditorum on the assets of the Issuer, holders would become holders of Profit-Sharing Certificates at a time when the Issuer's financial condition has deteriorated.

Although the Issuer has undertaken to create and issue Profit-Sharing Certificates with economic terms substantially similar to the Securities if required to do so to effect Mandatory Conversion and although KBC Holding will undertake to vote, at the general meeting of shareholders of the Issuer, in favour of such an issue and the corresponding amendments to the statutes of the Issuer, the Issuer has not yet created such Profit-Sharing Certificates. KBC Holding has undertaken in the Support Agreement to exercise its voting rights so that the terms and conditions of the Profit-Sharing Certificates are approved by the general meeting of shareholders of the Issuer (at the latest) at the next extraordinary shareholders meeting of the Issuer at which the statutes of the Issuer are amended. The ultimate issue of the Profit Sharing Certificates will require actions and resolutions to be taken at the time by the Issuer.

### ***Rights under the Support Agreement; Ranking of the Support Agreement***

KBC Holding's obligations under the Support Agreement constitute unsecured, subordinated obligations. In the event of a general concursus creditorum on the entire assets of KBC Holding, the rights of the Holders of Securities will rank behind those of all creditors of KBC Holding, including subordinated creditors (other than those, if any, whose claims are capable of constituting tier 1 regulatory capital of KBC Holding), and their payment will be subject to the condition precedent that all such creditors of KBC Holding will have been paid in full. The rights of the Holders of Securities under the Support Agreement will rank equally with the Parity Securities of KBC Holding and will rank ahead of the Junior Securities of KBC Holding. KBC Holding's obligations under the Support Agreement with respect to the payment of Coupons that are mandatorily payable on a Mandatory Coupon Date will be satisfied by making capital contributions to the Issuer and, as a result, any claims of Holders of Securities will be subordinated to claims of creditors of the Issuer. The Support Agreement does not limit the ability of KBC Holding to incur indebtedness or issue securities. See "*Description of the Support Agreement*".

KBC Holding will not be obligated to make any payment in respect of interest payments under the Support Agreement unless a payment is made in respect of, or a redemption, repurchase or acquisition is



made in respect of any of the Junior Securities or Parity Securities of KBC Holding. See “*Description of the Support Agreement*”.

In the event that KBC Holding does not have sufficient legally available reserves to make in full the payments due under the Support Agreement, KBC Holding will not be able to contribute or otherwise make available to the Issuer such additional funds as may be necessary to ensure that the Issuer will be able to pay all Mandatory Coupons due and payable on a Mandatory Coupon Date. See “*Description of the Support Agreement*”.

### ***No Final Maturity Date***

The Issuer is under no obligation to redeem the Securities at any time and the Holders of the Securities have no right to call for their redemption. The Securities are perpetual securities with no final maturity date and will form part of the regulatory capital of the Issuer. Therefore, potential investors in the Securities may be required to bear the financial risk of an investment in such Securities for an indefinite period of time.

### ***Subordination***

The obligations of the Issuer under the Securities rank behind the claims of holders of senior ranking securities. The Issuer is not prohibited from issuing, guaranteeing or otherwise incurring further debt ranking pari passu with, or senior to, its obligations under the Securities. Although the Securities may pay a higher rate of interest than comparable securities which are not as subordinated, there is a substantial risk that an investor in such Securities will lose all or some of his investment should the Issuer become insolvent.

### ***Limited Remedies***

The Issuer may elect to defer the payment of interest that would otherwise have been due and payable, except in certain limited circumstances. The sole remedy against the Issuer available to the Holders of the Securities for recovery of amounts owing is the institution of proceedings to obtain the payment of such amounts and or to obtain the bankruptcy of the Issuer, as more particularly described in “*Terms and Conditions of the Securities - Events of Default*”.

### ***No Voting Rights***

Holders of the Securities will not have any voting rights, except as provided in “*Terms and Conditions of the Securities – Meetings of Holders of the Securities*”.

Holders of the Profit-Sharing Certificates will not have any voting rights, except as provided in “*Terms and Conditions of the Profit-Sharing Certificates – Voting and Preference Rights*”.

### ***Relationship with the Issuer***

All notices and payments to be delivered to Holders of Securities will be distributed by the Issuer to such Holders of Securities through the relevant clearing systems. In the event that a Holder of Securities does not receive such notices or payments, its rights may be prejudiced but it may not have a direct claim against the Issuer therefor.

***Because the Global Certificate is held by or on behalf of the X/N System, Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by the Global Certificate, which will be deposited with the NBB. Except in certain limited circumstances described in the Global Certificate and subject as provided below, investors will not be entitled to receive definitive Notes. The X/N System, Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the X/N System, Euroclear and Clearstream, Luxembourg.



The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the NBB for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the X/N System, Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and KBC Holding have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificate will not have a direct right under the Global Certificate to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Pursuant to Belgian law of 14 December 2005 on the abolition of bearer securities, the Issuer will not be allowed to deliver Securities in bearer form in Belgium as from 1 January 2008, other than deliveries to a clearing system, a depository or another institution for the purpose of their immobilisation.

## INFORMATION INCORPORATED BY REFERENCE

The following information set out in the table below shall be deemed to be incorporated in, and to form part of, this Prospectus provided however that any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Paying Agents and the Listing Agent in Luxembourg, unless such documents have been modified or superseded. Such documents will also be available to view on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

For ease of reference, the tables below set out the relevant page references for the consolidated financial statements, the notes to the consolidated financial statements and the Auditors' reports for the years ended 31 December 2005 and 31 December 2006 for each of the Issuer and KBC Holding as set out in the respective annual reports, the consolidated financial statements for the six months ended 30 June 2007 for the Issuer and the consolidated financial statements, the notes to the consolidated financial statements and the Auditors' report for the six months ended 30 June 2007 for KBC Holding. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus:

### **KBC Bank NV**

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#### **Consolidated Financial Statements for the year ended 2006**

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#### **Unaudited Consolidated Interim Financial Statements for the six months ended 30 June 2007**

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### **KBC Holding**

#### **Consolidated Financial Statements for the year ended 2005**

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#### **Consolidated Financial Statements for the year ended 2006**

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**Unaudited Consolidated Interim Financial Statements for the six months ended 30 June 2007**

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The 2005 audited consolidated financial statements of each of the Issuer and KBC Holding were prepared in accordance with accounting principles generally accepted in Belgium and the 2006 audited consolidated financial statements of each of the Issuer and KBC Holding were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The 2006 audited consolidated financial statements of each of the Issuer and KBC Holding include comparison financial numbers for 2005, which have been restated in accordance with IFRS. The unaudited consolidated interim financial statements for the six months ended 30 June 2007 of each of the Issuer and KBC Holding were prepared in accordance with IFRS.

## TERMS AND CONDITIONS OF THE SECURITIES

*This paragraph and any other paragraphs appearing in italics in these terms and conditions, do not form part of these terms and conditions.*

The £150,000,000 Directly Issued Perpetual Debt Securities (the “**Securities**”, which expression includes any further securities issued pursuant to Condition 16 (*Further issues*) and forming a single series therewith and with the Existing Securities (as defined below)) of KBC Bank NV (the “**Issuer**”) are issued on 12 October 2007 (the “**New Issue Date**”) subject to and with the benefit of (a) a support agreement dated 19 December 2003 (as supplemented by a first supplemental support agreement dated 3 November 2004, a second supplemental support agreement dated 12 October 2007 and as further amended or supplemented from time to time, the “**Support Agreement**”) between the Issuer and KBC Bank and Insurance Holding Company NV (currently, KBC Group NV) (“**KBC Holding**”) and (b) an agency agreement dated 19 December 2003 (as supplemented by a first supplemental securities agency agreement dated 3 November 2004, a second supplemental securities agency agreement dated 12 October 2007 and as further amended or supplemented from time to time, the “**Securities Agency Agreement**”) between the Issuer, KBC Holding, Kredietbank S.A. Luxembourgeoise as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Securities) and as Calculation Agent and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities). Certain provisions of these terms and conditions (the “**Conditions**”) are summaries of the Support Agreement and the Securities Agency Agreement and are subject to their detailed provisions. The Securities will be consolidated and form a single series for all purposes with the Issuer’s existing £200,000,000 Directly Issued Perpetual Debt Securities issued on 19 December 2003 and the Issuer’s existing £175,000,000 Directly Issued Perpetual Debt Securities issued on 3 November 2004 (together, the “**Existing Securities**”). The holders of the Securities (the “**Holders of Securities**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Support Agreement and the Securities Agency Agreement applicable to them. Copies of the Support Agreement and the Securities Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Securities Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 1. Definitions

In these Conditions the following expressions have the following meanings:

“**1995 Decree**” has the meaning given in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).

“**Additional Amounts**” has the meaning given in Condition 10 (*Taxation*).

“**Adjusted Outstanding Principal Amount**” means the aggregate principal amount of the Securities (or, as the context may require, the relevant number thereof or an individual Security) outstanding for the time being adjusted to include the aggregate amount of any Elective Deferred Coupons.

“**Administrative Action**” means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental or administrative authority or regulatory body having appropriate jurisdiction.

“**Adviser**” has the meaning given in Condition 7(c) (*Alternative Coupon Payment Method – Appointment of Adviser*).

“**Alternative Coupon Payment Method**” has the meaning given in Condition 7(a) (*Alternative Coupon Payment Method – Applicable*).

“**Applicable Banking Regulations**” means at any time the capital adequacy regulations then in effect of the CBF or other regulatory authority in Belgium (or if the Issuer becomes domiciled in a

jurisdiction other than Belgium, such other jurisdiction) having primary bank supervisory authority with respect to the Issuer.

**“Base Redemption Price”** has the meaning given in Condition 8(e) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption at the option of the Issuer*).

**“Belgian Company Code”** means the Belgian company code enacted by the law of 7 May 1999, as amended.

**“business day”** means a day which is a London Business Day and which is also a day on which the X/N System is operating.

**“Calculation Agent”** means Kredietbank S.A. Luxembourgeoise and any successor appointed under the Securities Agency Agreement.

**“CBF”** means the Belgian Banking and Finance Commission (*Commission Bancaire et Financière/Commissie voor het Bank en Financiewezen*), together with any successor authority that administers the Applicable Banking Regulations.

**“Conversion Upper Tier 2 Instruments”** means instruments constituting “upper tier 2” regulatory capital of the Issuer under Applicable Banking Regulations having the same material terms as the Securities, except that each such instrument will (i) be a perpetual capital security issued by the Issuer with cumulative interest, (ii) rank *pari passu* with any other upper tier 2 capital securities issued by the Issuer, (iii) not be redeemable upon a Tier 1 Disqualification Event, (iv) not be subject to the Alternative Coupon Payment Method, (v) not be subject to a Mandatory Conversion and (vi) be subject to such terms and conditions as may be required under the Applicable Banking Regulations to be capable of constituting “upper tier 2” regulatory capital of the Issuer. For the avoidance of doubt, with respect to any Securities, any Deferred Coupons outstanding at the time of the conversion into Conversion Upper Tier 2 Instruments shall become outstanding missed cumulative interest payments for the purposes of the Conversion Upper Tier 2 Instruments and the terms of such Conversion Upper Tier 2 Instruments will be reflected in one or more agency agreements or in an agency agreement supplemental to the Securities Agency Agreement, without the need for any consent of the Holders of Securities, at the time of conversion, if any.

**“Coupon Sheet”** has the meaning given in Condition 9(i) (*Payments – Exchange of Talons*).

**“Day Count Fraction”** has the meaning given in Condition 4(a) (*Interest – Fixed Interest Period*).

**“Deferral Notice”** has the meaning given in Condition 5(a) (*Deferral of Coupons – Deferral Notice*).

**“Deferred Coupon”** means any interest on the Securities or any portion thereof that is deferred in accordance with Conditions 4(i) (*Interest – Deferred Coupons*) and 5 (*Deferral of Coupons*) which is either an Elective Deferred Coupon or an Exceptional Deferred Coupon.

**“Deferred Coupon Satisfaction Date”** means (i) any date on which all Deferred Coupons become mandatory due and payable in accordance with Condition 6(b)(i) (*Dividend Stopper and Mandatory Coupons – Mandatory Coupons*) or (ii) any date on which the Issuer elects to pay Deferred Coupons before they become mandatory due and payable.

**“Dispute”** has the meaning given in Condition 19(b) (*Governing Law and Jurisdiction – English Courts*).

**“dividend”** means, with respect to Junior Securities and Parity Securities, a dividend or any other distribution of earnings or reserved profits thereon; for the avoidance of doubt, “dividend” does not include any coupon representing subscription rights or similar rights, any redemption of capital, nor any adjustment payment (*opleg/soulte*) paid on a merger or other capital restructuring event.

**“Elective Deferred Coupons”** has the meaning given in Condition 4(i) (*Interest – Deferred Coupons*).

**“Eligible Investor”** means from time to time a person who is allowed to hold securities through a so-called “X account” (being an account exempted from withholding tax) in the X/N System in accordance with Article 4 of the Belgian Royal Decree of 26 May 1994, as amended or replaced from time to time.

**“euro”** and **“EUR”** are references to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty.

**“Euro Exchange Date”** has the meaning given in Condition 18(b)(ii)(A) (*Redenomination, Renominalisation and Reconventioning*).

**“Euro Exchange Notice”** has the meaning given in Condition 18(b)(ii)(A) (*Redenomination, Renominalisation and Reconventioning*).

**“Event of Default”** has the meaning given in Condition 11 (*Events of Default*).

**“Exceptional Deferred Coupons”** has the meaning given in Condition 4(i) (*Interest – Deferred Coupons*).

**“Expert”** has the meaning given in Condition 7(c) (*Alternative Coupon Payment Method – Appointment of Adviser*).

**“First Call Date”** has the meaning given in Condition 8(e) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption at the option of the Issuer*).

**“Fixed Interest Payment Date”** has the meaning given in Condition 4(a) (*Interest – Fixed Interest Period*).

**“Fixed Interest Period”** has the meaning given in Condition 4(a) (*Interest – Fixed Interest Period*).

**“Fixed Rate of Interest”** has the meaning given in Condition 4(a) (*Interest – Fixed Interest Period*).

**“Floating Interest Amount”** has the meaning given in Condition 4(d) (*Interest – Calculation of Floating Interest Amount*).

**“Floating Interest Determination Date”** has the meaning given in Condition 4(b) (*Interest – Floating Interest Period*).

**“Floating Interest Payment Date”** has the meaning given in Condition 4(b) (*Interest – Floating Interest Period*).

**“Floating Rate of Interest”** has the meaning given in Condition 4(c) (*Interest – Floating Rate of Interest*).

**“Floating Interest Period”** has the meaning given in Condition 4(b) (*Interest – Floating Interest Period*).

**“general concursus creditorum”** means any concursus creditorum (“*concours des créanciers/ samenloop van schuldeisers*”) on the entire assets of the Issuer or KBC Holding, as the case may be, including bankruptcy (“*faillite/faillissement*”), moratorium (“*concordat judiciaire/gerechtigd akkoord*”) and judicial or voluntary dissolution (“*dissolution judiciaire ou volontaire/gerechtigd akkoord of vrijwillige ontbinding*”) except, in the latter case, for corporate reorganisations involving a dissolution without liquidation (“*dissolution sans liquidation/ontbinding zonder vereffening*”) of the Issuer or KBC Holding, as the case may be, as referred to in Articles 671 to 677 of the Belgian Company Code relating to mergers, demergers and assimilated transactions.

**“Interest Period”** has the meaning given in Condition 4(b) (*Interest – Floating Interest Period*).

**“Interest Payment Date(s)”** has the meaning given in Condition 4(b) (*Interest – Floating Interest Period*).

**“Issue Date”** has the meaning given in Condition 4(a) (*Interest – Fixed Interest Period*).

**“Issuer Ordinary Shares”** means ordinary shares of the Issuer or any ordinary share equivalent that may replace or be substituted for the ordinary shares of the Issuer.

**“Junior Securities”** means, with respect to the Issuer or KBC Holding, (i) Issuer Ordinary Shares or KBC Holding Ordinary Shares, (ii) profit sharing certificates (*winstbewijzen/parts bénéficiaires*) of the Issuer or KBC Holding ranking junior to the Parity Securities of the Issuer or KBC Holding, as the case may be, or (iii) any other securities or obligations of the Issuer or KBC Holding ranking or expressed to rank junior to the Parity Securities of the Issuer or KBC Holding, as the case may be, whether issued directly by the Issuer or KBC Holding or by any subsidiary of the Issuer or KBC Holding benefiting from a guarantee or support agreement from the Issuer or KBC Holding ranking or expressed to rank junior to the Securities and the Support Agreement.

**“KBC Group”** means KBC Holding and its consolidated subsidiaries.

**“KBC Holding Ordinary Shares”** means ordinary shares of KBC Holding or any ordinary share equivalent that may replace or be substituted for the ordinary shares of KBC Holding.

**“Law of 22 March 1993”** has the meaning given in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).

**“London Business Day”** has the meaning given in Condition 4(g) (*Interest – Interpretation*).

**“Make Whole Amount”** means an amount, as determined by the Calculation Agent, equal to the aggregate of (A) the aggregate principal amount of the Securities multiplied by the price, expressed as a percentage and rounded to four decimal places (0.00005 being rounded upwards), at which the Gross Redemption Yield of the Securities on the Calculation Date (assuming for this purpose that the Securities are to be redeemed at the Base Redemption Price on the First Call Date) would be equal to the Gross Redemption Yield of the Reference Bond on such Calculation Date on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such Calculation Date as determined by the Calculation Agent, plus 0.5 per cent., (B) any unpaid Deferred Coupons, and (C) any Additional Amounts. For the purposes of determining the Make Whole Amount:

**“Calculation Date”** means the third London Business Day prior to the Special Event Redemption Date.

**“Gross Redemption Yield”** means a yield calculated by the Calculation Agent in accordance with principles consistent with those used in the United Kingdom Debt Management Office notice “*Formulae for Calculating Gilt Prices from Yields*” page 4, Section One: Price/Yield Formulae “*Conventional Gilts; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi Coupon Date*” published on 8 June 1998 and updated on 15 January 2002 (and as further updated, supplemented, amended or replaced from time to time) on a semi annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places).

**“Reference Bond”** means such United Kingdom government security as the Calculation Agent may, with the advice of the Reference Bond Dealers, determine to be appropriate for determining the Make Whole Amount.

**“Reference Bond Dealers”** means three brokers of gilts and/or gilt edged market makers selected by the Calculation Agent in consultation with the Issuer, or such other three persons operating in the gilt edged market as are selected by the Calculation Agent in consultation with the Issuer.

**“Special Event Redemption Date”** means, a redemption date that occurs before the First Call Date in connection with the occurrence of a Tax Event or a Tier 1 Disqualification Event.



**“Mandatory Conversion”** has the meaning given in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).

**“Mandatory Conversion Amount”** has the meaning given in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).

**“Mandatory Coupon”** means an amount of interest mandatory due and payable on a Mandatory Coupon Date or a Deferred Coupon Satisfaction Date.

**“Mandatory Coupon Date”** has the meaning given in Condition 6(b)(ii) (*Dividend Stopper and Mandatory Coupons – Mandatory Coupons*).

**“Market Disruption Event”** has the meaning given in Condition 7(e) (*Alternative Coupon Payment Method*).

**“NBB”** means the National Bank of Belgium or any successor of the National Bank of Belgium as operator of the X/N System.

**“Net Assets Deficiency Event”** has the meaning given in Condition 4(i) (*Interest – Deferred Coupons*).

**“Other Pari Passu Claims”** has the meaning set forth in the definition of Senior and Subordinated Indebtedness.

**“Parity Guarantees”** has the meaning given in the definition of Parity Securities.

**“Parity Securities”** means, with respect to the Issuer or KBC Holding, (i) the most senior ranking preferred or preference shares or profit sharing certificates (*winstbewijzen/parts bénéficiaires*) (**“Parity Shares”**) of the Issuer or KBC Holding, if any and (ii) guarantees by the Issuer or KBC Holding (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred securities or preferred or preference shares issued by any of the Issuer’s or KBC Holding’s subsidiaries, ranking or expressed to rank pari passu with the Issuer’s or KBC Holding’s Parity Shares (**“Parity Guarantees”**).

**“Parity Shares”** has the meaning set forth in the definition of Parity Securities.

**“Participating Member State”** has the meaning given in Condition 18(d) (*Redenomination, Renominalisation and Reconventioning – Interpretation*).

**“Permitted Share Acquisition”** means an acquisition of Junior Securities or Parity Securities (i) by simultaneous replacement with other Junior Securities or, as the case may be, Parity Securities of the same aggregate principal amount and the same or a lower ranking, (ii) in connection with transactions effected for the account of customers of the Issuer or KBC Holding or any of their subsidiaries or in connection with the distribution, trading or market making in respect of such securities, (iii) in connection with the satisfaction by the Issuer or KBC Holding or any of their subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants. For the avoidance of doubt, Set Rate Parity Securities may be replaced with new Set Rate Parity Securities, subject to (i) above, but Parity Securities which are not Set Rate Parity Securities may not be replaced by Set Rate Parity Securities.

**“Proceedings”** has the meaning given in Condition 19(d) (*Governing Law and Jurisdiction – Service of process*).

**“Profit Sharing Certificates”** means the profit sharing certificates (*winstbewijzen/parts bénéficiaires*) directly issued by the Issuer pursuant to Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*) upon the occurrence of a Supervisory Event or upon an event resulting in a general concursus creditorum on the assets of the Issuer, the terms and conditions of which being as set out in the Schedule hereto.

**“Redemption Date”** means a Special Event Redemption Date or the First Call Date or any subsequent Interest Payment Date upon which the Securities are redeemed.

**“Redenomination Date”** has the meaning given in Condition 18(a) (*Redenomination, Renominalisation and Reconventioning*).

**“Relevant Coupons”** has the meaning given in Condition 9(d)(ii)(A) (*Payments – Deduction for unmatured Coupons*).

**“Relevant Date”** has the meaning given in Condition 10 (*Taxation*).

**“Relevant Period”** has the meaning given in Condition 6(b)(ii) (*Dividend Stopper and Mandatory Coupons – Mandatory Coupons*).

**“Relevant Tax”** has the meaning given in Condition 10 (*Taxation*).

**“Senior and Subordinated Indebtedness”** means all deposits and other liabilities of the Issuer (including those in respect of bonds, notes and debentures, whether senior or subordinated (but not further than instruments constituting upper “tier 2” capital of the Issuer under the Applicable Banking Regulations)) or guarantees in respect thereof, other than (i) liabilities of the Issuer under the Securities, and (ii) Other Pari Passu Claims. For the purposes of the foregoing, **“Other Pari Passu Claims”** means claims of creditors of the Issuer which are subordinated so as to rank *pari passu* with claims in respect of the Securities.

**“Set Rate Parity Securities”** means Parity Securities carrying a right to a set level of dividend (whether by reference to a fixed or floating rate or otherwise), as opposed to a right to dividend which, subject to the availability of profits, is essentially discretionary.

**“Sterling”**, **“pounds sterling”**, **“pence”** and **“£”** are references to the lawful currency of the United Kingdom.

**“Supervisory Event”** has the meaning given in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).

**“Talon”** has the meaning given in Condition 2 (*Form, Denomination and Title*).

**“Tax Event”** has the meaning given in Condition 8(b) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption for tax reasons*).

**“Tier 1 Disqualification Event”** has the meaning given in Condition 8(c) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Tier 1 Disqualification Event*).

**“Treaty”** has the meaning given in Condition 18(d) (*Redenomination, Renominalisation and Reconventioning – Interpretation*).

**“X/N System”** means the book entry clearance and settlement system operated by the NBB.

## 2. **Form, Denomination and Title**

The Securities are in bearer form in the denomination of £1,000 with Coupons and talons (each, a **“Talon”**) for further Coupons attached at the time of issue. Title to the Securities, the Coupons and the Talons will pass by delivery. The holder of any Security, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

### 3. Status and Support Agreement

- (a) *Status of the Securities*: The payment obligations of the Issuer under the Securities will rank behind the claims of holders of Senior and Subordinated Indebtedness of the Issuer, *pari passu* with claims of holders of Parity Securities and before the claims of holders of Junior Securities of the Issuer. In the event of a general concursus creditorum on the assets of the Issuer, the Securities will be converted automatically into Profit Sharing Certificates as provided in Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*).
- (b) *Company Law Status*: The Securities do not constitute convertible bonds (*obligations convertibles/ converteerbare obligaties*) or subscription rights (*droits de souscription/inschrijvingsrechten*) for the purposes of Belgian company law and the Holders of Securities shall not be entitled to the rights granted by the Belgian Company Code specifically to holders of convertible bonds or subscription rights, in particular under Articles 491, 492, 501 and 502.
- (c) *Support Agreement*: KBC Holding has in the Support Agreement agreed to perform the following obligations:
  - (i) *Mandatory Coupons*: to contribute or cause to be contributed to the capital of the Issuer or otherwise make available such funds as may be necessary to permit the Issuer, taking into account the computation methods as provided for under Article 617 of the Belgian Company Code, to pay any Mandatory Coupon due and payable on a Mandatory Coupon Date; *provided that* any such payment will not be due and payable if following such payment, KBC Holding would not be solvent or would be in a situation of cessation of payment (“*cessation de paiement/staking van betalen*”). Further, no such contribution to the capital of the Issuer will be due and payable if and to the extent that, before or after giving effect to such contribution, a Net Assets Deficiency Event has occurred and is continuing with respect to KBC Holding; *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to KBC Holding, such contributions to the capital of the Issuer will be mandatory due and payable on or before any Mandatory Coupon Date that is triggered by payment of a dividend or redemptions, repurchases or other acquisitions in respect of Junior Securities or Parity Securities of KBC Holding; and
  - (ii) *Alternative Coupon Payment Method*: in order that the Issuer is able to pay Deferred Coupons on any Deferred Coupon Satisfaction Date in accordance with the Alternative Coupon Payment Method, to use all reasonable efforts to ensure that the Issuer has sufficient authorised capital and that KBC Holding has sufficient authorised capital for such purpose; *provided that* this undertaking shall not be construed to require KBC Holding to acquire any issued and outstanding KBC Holding Ordinary Shares. Without limiting the generality of the foregoing, at each annual general meeting KBC Holding will propose that its shareholders approve resolutions authorising the issuance of such number of KBC Holding Ordinary Shares as KBC Holding reasonably determines are sufficient to pay the interest scheduled to fall due on the Securities over the next twelve months in accordance with the Alternative Coupon Payment Method, except to the extent that KBC Holding reasonably determines that there is sufficient authorised capital for such purpose already in existence.
- (d) *Status of the obligations of KBC Holding under the Support Agreement*: The obligations of KBC Holding under the Support Agreement constitute unsecured and subordinated obligations of KBC Holding. In the event of a general concursus creditorum on the entire assets of KBC Holding, the rights of the Holders of Securities will rank behind those of all creditors of KBC Holding, including subordinated creditors (other than those, if any, whose claims are capable of constituting tier 1 regulatory capital of KBC Holding), and their payment will be subject to

the condition precedent that all such creditors of KBC Holding will have been paid in full. The rights of the Holders of Securities under the Support Agreement will rank equally with Parity Securities of KBC Holding and rank ahead of the Junior Securities of KBC Holding.

- (e) *Enforcement by the Issuer:* The Issuer undertakes promptly to take all necessary steps to enforce the terms of the Support Agreement against KBC Holding in case of breach thereof.

#### 4. Interest

- (a) *Fixed Interest Period:* (i) the Existing Securities bear interest from (and including) 19 December 2003 (the “**Issue Date**”) to (but excluding) 19 December 2019 at the rate of 6.202 per cent. per annum, (the “**Fixed Rate of Interest**”) payable in arrear on 19 December in each year (each, a “**Fixed Interest Payment Date**”), commencing on 19 December 2004 and (ii) the Securities bear interest from (and including) 19 December 2006 to (but excluding) 19 December 2019 at the Fixed Rate of Interest payable in arrears on each Fixed Interest Payment Date, commencing on 19 December 2007, in each case subject as provided in Conditions 4(i) (*Interest – Deferred Coupons*), 5 (*Deferral of Coupons*), 6 (*Dividend Stopper and Mandatory Coupons*), 7 (*Alternative Coupon Payment Method*) and 9 (*Payments*).

The amount of interest payable in respect of each Security on each Fixed Interest Payment Date shall be calculated by applying the Fixed Rate of Interest to the Adjusted Outstanding Principal Amount of each Security. If interest in respect of a Security is required to be paid on any other date, it shall be calculated by applying the Fixed Rate of Interest to the Adjusted Outstanding Principal Amount of such Security, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest pence (half a pence being rounded upwards), where:

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Fixed Interest Period in which the relevant period falls; and

“**Fixed Interest Period**” means each period from (and including) the Issue Date or any Fixed Interest Payment Date to (but excluding) the next Fixed Interest Payment Date.

- (b) *Floating Interest Period:* The Securities bear interest from 19 December 2019 at the Floating Rate of Interest, payable on each 19 March, 19 June, 19 September and 19 December in each year (each, a “**Floating Interest Payment Date**” together with the Fixed Interest Payment Dates, the “**Interest Payment Dates**” and each an “**Interest Payment Date**”), commencing on 19 March 2020, subject as provided in Conditions 4(i) (*Interest – Deferred Coupons*), 5 (*Deferral of Coupons*), 6 (*Dividend Stopper and Mandatory Coupons*), 7 (*Alternative Coupon Payment Method*) and 9 (*Payments*); provided, however, that, if any Floating Interest Payment Date would otherwise fall on a date which is not a London Business Day (as defined below), it will be postponed to the next London Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding London Business Day. Each period beginning on (and including) 19 December 2019 or any Floating Interest Payment Date and ending on (but excluding) the next Floating Interest Payment Date is herein called a “**Floating Interest Period**”. A Floating Interest Period and/or a Fixed Interest Period is herein called “**Interest Period**”.
- (c) *Floating Rate of Interest:* The rate of interest applicable to the Securities (the “**Floating Rate of Interest**”) for each Floating Interest Period will be determined by the Calculation Agent on the following basis:
  - (i) the Calculation Agent will determine the rate for deposits in pounds sterling for a period equal to the relevant Floating Interest Period which appears on the display page designated 3750 on the Moneyline Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information

vendor, for the purpose of displaying comparable rates) as of 11:00 a.m., (London time), on the first day of the relevant Floating Interest Period (the “**Floating Interest Determination Date**”) *provided that*;

- (A) if there is more than one rate which appears on that page, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point, 0.000005 being rounded upwards) of such rates; and
  - (B) if there are five or more rates which appear on that page, the Calculation Agent will disregard the highest (or, if there is more than one such highest rate, one only of such rates) and the lowest (or, if there is more than one such lowest rate, one only of such rates) for the purposes of determining the arithmetic mean (rounded above) of such rates;
- (ii) if such rate does not appear on that page, the Calculation Agent will:
- (A) request the principal London office of each of four major banks in the London interbank market to provide a quotation of the rate at which deposits in pounds sterling are offered 15 by it at approximately 11.00 a.m. (London time) on the Floating Interest Determination Date to prime banks in the London interbank market for a period equal to the relevant Floating Interest Period and in an amount that is representative for a single transaction in that market at that time; and
  - (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in London, selected by the Calculation Agent, at approximately 11.00 a.m. (London time) on the Floating Interest Determination Date for loans in pounds sterling to leading London banks for a period equal to the relevant Floating Interest Period and in an amount that is representative for a single transaction in that market at that time, and the Floating Rate of Interest for such Floating Interest Period shall be the sum of 1.93 per cent. per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however*, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Floating Interest Period, the Floating Rate of Interest applicable to the Securities during such Floating Interest Period will be the sum of 1.93 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Securities in respect of a preceding Floating Interest Period. If there is no preceding Floating Interest Period in respect of which the Floating Rate of Interest has been determined, the Calculation Agent shall determine the Floating Rate of Interest, at such rate as, in its absolute discretion, it shall deem fair and reasonable in the circumstances.
- (d) *Calculation of Floating Interest Amount:* The Calculation Agent will, as soon as practicable after the Floating Interest Determination Date in relation to each Floating Interest Period, calculate the amount of interest (the “**Floating Interest Amount**”) payable in respect of each Security for such Floating Interest Period. The Floating Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Interest Period to the Adjusted Outstanding Principal Amount of such Security, multiplying the product by the actual number of days in such Floating Interest Period divided by 365 (or, if any portion of the Floating Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Floating Interest Period falling in a leap year divided by 366 and (B) the actual number of



days in that portion of the Floating Interest Period falling in a non leap year divided by 365) and rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

- (e) *Publication:* The Calculation Agent will cause each Floating Rate of Interest and Floating Interest Amount determined by it, together with the relevant Floating Interest Payment Date, to be notified to the Issuer, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Securities have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Floating Interest Period. Notice thereof shall also promptly be given to the Holders of Securities. The Calculation Agent will be entitled to recalculate any Floating Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Floating Interest Period.
- (f) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, KBC Holding, the Paying Agents, the Holders of Securities and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise by it of its powers, duties and discretions for such purposes.
- (g) *Interpretation:* In this Condition:  
  
“**London Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.
- (h) *Accrual of interest:* Subject to Condition 7 (*Alternative Coupon Payment Method*), each Security will cease to bear interest from the relevant Redemption Date unless, upon due presentation, payment of principal or Elective Deferred Coupons is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 4 (*Interest*) on the amounts in respect of which payment is so withheld or refused (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Security up to that day are received by or on behalf of the relevant Holder of Securities and (b) the day which is seven days after the Fiscal Agent has notified the Holders of Securities that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is any subsequent default in payment).
- (i) *Deferred Coupons:* If and to the extent that, before or after giving effect to any interest on the Securities otherwise due and payable on an Interest Payment Date, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer, the Issuer will give a Deferral Notice and no interest or less than the full interest amount will be due and payable on such Interest Payment Date; *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to the Issuer, interest on the Securities will be mandatorily due and payable on any Deferred Coupon Satisfaction Date or Mandatory Coupon Date in accordance with Condition 6(b) (*Dividend Stopper and Mandatory Coupons – Mandatory Coupons*). If interest on the Securities is not mandatory due and payable on an Interest Payment Date and no Net Assets Deficiency Event has occurred, then, if the Issuer gives a Deferral Notice, no interest or less than the full amount of interest as specified in such Deferral Notice will be payable on such Interest Payment Date.

Deferred Coupons that are deferred in the circumstances described in the first sentence of the preceding paragraph are referred to herein as “**Exceptional Deferred Coupons**” and Deferred Coupons that are deferred in the circumstances described in the second sentence of the preceding paragraph are referred to herein as “**Elective Deferred Coupons**”.

For the purposes of the foregoing, “**Net Assets Deficiency Event**” means (a) with respect to the Issuer or KBC Holding, a decline in the net assets of the Issuer or KBC Holding to below

the sum of its paid in capital and non distributable reserves, as determined in accordance with, or by applying the computation method provided in, Article 617 of the Belgian Company Code in relation to the distribution of dividends or (b) with respect to the Issuer, an occurrence of the event described in clause (i) of the definition of Supervisory Event. Net assets are to be understood (subject to any change in Article 617 of the Belgian Company Code that may occur after the Issue Date) as the total assets as they appear in the (non consolidated) balance sheet of the Issuer or KBC Holding, as the case may be, after deduction of provisions, debts (including, for the avoidance of doubt, the Securities), formation expenses not yet written off and research and development costs not yet written off.

## 5. Deferral of Coupons

- (a) *Deferral Notice*: In respect of an Exceptional Deferred Coupon, the Issuer will, and in respect of an Elective Deferred Coupon the Issuer may, on or before the 15th business day immediately preceding an Interest Payment Date, give notice (a “**Deferral Notice**”) that the Issuer will defer the interest that would, in the absence of deferral in accordance with this Condition, otherwise have been due and payable on such Interest Payment Date or a specified portion thereof, in which case no interest or less than the full amount of interest so specified will be due and payable on such Interest Payment Date.

In respect of an Elective Deferred Coupon, the Issuer may give a Deferral Notice in its sole discretion and for any reason. A Deferral Notice as to interest due and payable on a Deferred Coupon Satisfaction Date or Mandatory Coupon Date shall have no force or effect. Each Deferral Notice shall be given by mail and facsimile to the Paying Agents, the Calculation Agent, and in accordance with Condition 17 (*Notices*) to the Holders of Securities.

- (b) *Payment of Deferred Coupon*: Deferred Coupons will become mandatory payable upon any payment of dividends on Junior Securities or Parity Securities of the Issuer or KBC Holding or any redemption, repurchase or other acquisition by the Issuer or KBC Holding of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition). The Issuer may, however, elect to pay Deferred Coupons at any time before they become mandatory payable. The Issuer will be permitted to satisfy its obligation to pay Deferred Coupons only in accordance with the Alternative Coupon Payment Method.
- (c) *Interest on Deferred Coupons*: Elective Deferred Coupons shall bear interest in accordance with Condition 4(a) (*Interest – Fixed Interest Period*) or 4(b) (*Interest – Floating Interest Period*) provided that they shall not bear interest during any period when a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer. Exceptional Deferred Coupons shall not bear interest beyond their scheduled Interest Payment Date.

## 6. Dividend Stopper and Mandatory Coupons

- (a) *Dividend Stopper*: The Issuer agrees and KBC Holding has agreed in the Support Agreement that, beginning on the day the Issuer gives a Deferral Notice and continuing until all Deferred Coupons are paid in full: (A) each of the Issuer and KBC Holding (i) will not propose to its shareholders and, to the fullest extent permitted by applicable law, will otherwise act to prevent the declaration or payment of any dividend on its Junior Securities or Parity Securities and (ii) will not redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), and (B) KBC Holding will not vote, and will procure that no vote is cast by any of its subsidiaries, in favour of any of the actions of the Issuer described in clauses (A)(i) and (ii) above; provided that if less than the full amount of interest is paid on the Securities on any Interest Payment Date, the undertaking described in this Condition 6(a) will not prevent the distribution of a partial dividend, in the same proportion, on any Set Rate Parity Securities during the period beginning on such Interest Payment Date and ending before the next succeeding Interest Payment Date.
- (b) *Mandatory Coupons*: The Issuer shall pay interest on the Securities as follows:



- (i) If the Issuer or KBC Holding (A) pays any dividend on any of its Junior Securities or Parity Securities or (B) redeems, repurchases or otherwise acquires any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), then all Deferred Coupons will become mandatorily due and payable on a date to be determined by the Issuer but in any event no later than 90 business days after the date of the payment in respect of such Junior Securities or Parity Securities; *provided that* during any Floating Interest Period such date shall be an Interest Payment Date (together with the date of any elective payment of Deferred Coupons before they become mandatory payable, a “**Deferred Coupon Satisfaction Date**”), notwithstanding any further Deferral Notice or the occurrence of any Net Assets Deficiency Event with respect to the Issuer. The Issuer will satisfy its obligation to pay such Deferred Coupons only in accordance with the Alternative Coupon Payment Method; and
- (ii) If the Issuer or KBC Holding (A) pays any dividend on any of its Junior Securities or Parity Securities or (B) redeems, repurchases or otherwise acquires any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), then the interest due and payable on each Interest Payment Date occurring during the Relevant Period (as defined below) will be mandatory due and payable on each such date (a “**Mandatory Coupon Date**”), notwithstanding any Deferral Notice as to such interest or the occurrence of any Net Assets Deficiency Event with respect to the Issuer. In the case of any dividend on any Set Rate Parity Securities, the interest payable on each related Mandatory Coupon Date will be payable in an amount that results in payment on such Mandatory Coupon Date of a proportion of the full interest amount on the Securities payable on the Interest Payment Date equal to the proportion that a full dividend on such Set Rate Parity Securities bears to such dividend. The Issuer will be permitted, but shall not be required, to satisfy its obligation to pay the interest payable on a Mandatory Coupon Date in accordance with the Alternative Coupon Payment Method.

For the purposes of the foregoing, “**Relevant Period**” means:

- (A) for any Relevant Period commencing on or before 19 December 2019, one year; *provided that* if such Relevant Period commences after 19 December 2018, it shall end on and include 19 December 2019; and
- (B) for any Relevant Period commencing after 19 December 2019:
  - (1) one year, in the case of (A) any dividend on Junior Securities or Parity Securities that have annual scheduled payments or have no scheduled payment dates or (B) any redemption, repurchase or other acquisition of Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition),
  - (2) six months, in the case of any dividend on Junior Securities or Parity Securities that have semi annual scheduled payments, and
  - (3) three months, in the case of any dividend on Junior Securities or Parity Securities that have quarterly (or more frequent) scheduled payments,

*provided* in each case that such Relevant Period (unless it commences after 19 December 2018 and ends on and includes 19 December 2019) shall commence on and include the day of the relevant dividend or redemption, repurchase or other acquisition but shall not include the corresponding day of the third, sixth or twelfth month thereafter, as the case may be.

## 7. **Alternative Coupon Payment Method**

- (a) *Applicable*: The Issuer will satisfy its obligation to pay any Deferred Coupon on a Deferred Coupon Satisfaction Date only in accordance with the procedure described below (the “**Alternative Coupon Payment Method**”). The Issuer will be permitted, but shall not be required, to follow the Alternative Coupon Payment Method in order to satisfy its obligation to pay any interest payable on an Interest Payment Date or Mandatory Coupon Date.
- (b) *Issuance, Exchange and Sale Procedure*: The Issuer’s obligation to pay Deferred Coupons on a Deferred Coupon Satisfaction Date, or interest payable on an Interest Payment Date or Mandatory Coupon Date, as applicable, in accordance with the Alternative Coupon Payment Method will be satisfied as follows:
  - (i) the Issuer will give at least 20 business days’ notice to any Paying Agent, the Calculation Agent and Holders of the Securities of the forthcoming Deferred Coupon Satisfaction Date, or of its intent to use the Alternative Coupon Payment Method on an Interest Payment Date or Mandatory Coupon Date, as applicable;
  - (ii) on or before the 7th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, such Deferred Coupons or interest will be contributed in kind for the account of the Holders of the Securities to the capital (or an issue premium account) of the Issuer and the Issuer (a) will, in consideration of such contribution, issue Issuer Ordinary Shares having, in the judgment of the Calculation Agent and, subject to compliance with the requirements of Article 602 of the Belgian Company Code on contributions to share capital in kind (when converted into pounds sterling), an aggregate fair market value equal to the aggregate amount of Deferred Coupons and Additional Amounts that will be payable on such Deferred Coupon Satisfaction Date, or interest payable on such Interest Payment Date or Mandatory Coupon Date, as applicable, plus, subject to the proviso below, any expenses to be borne by the Issuer or KBC Holding in connection with using the Alternative Coupon Payment Method (including, without limitation, the claims for the costs, fees and expenses of the Calculation Agent); *provided that* for the purposes of the foregoing calculation, such expenses shall not be included in such calculation or contributed as a claim for reimbursement against the Issuer or KBC Holding, to the extent that such expenses are otherwise paid or provided for by the Issuer or KBC Holding, as the case may be, on or before the 8th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, and (b) will cause such Issuer Ordinary Shares to be delivered to KBC Holding for the account of the Holders of the Securities and for the purposes of the contribution to be made in accordance with paragraph (iii) below;
  - (iii) on or before the 6th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, such Issuer Ordinary Shares will be contributed to the capital (or an issue premium account) of KBC Holding for the account of the Holders of the Securities, and KBC Holding (a) will, in consideration of such contribution and within one business day thereafter, issue KBC Holding Ordinary Shares having, in the judgment of the Calculation Agent and subject to compliance with the requirements of Article 602 of the Belgian Company Code on contributions to the share capital in kind an aggregate fair market value (when converted into pounds sterling) equal to the aggregate amount of Deferred Coupons and Additional Amounts that will be payable on such Deferred Coupon Satisfaction Date, or the interest that will be payable on such Interest Payment Date or Mandatory Coupon Date, as applicable, plus, subject to the proviso below, any expenses to be borne by the Issuer or KBC Holding in connection with using the Alternative Coupon Payment Method (including, without limitation, the claims for the costs, fees and expenses of the Calculation Agent); *provided that* for the purposes of the foregoing calculation, such

expenses shall not be included in such calculation or contributed as a claim for reimbursement against the Issuer or KBC Holding, to the extent that such expenses are otherwise paid or provided for by the Issuer or KBC Holding, as the case may be, on or before the 6th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, and (b) will cause such KBC Holding Ordinary Shares to be delivered to the Fiscal Agent for the account of the Holders of the Securities;

- (iv) as soon as reasonably practicable thereafter, the Fiscal Agent has agreed to use reasonable endeavours on normal market terms to procure purchasers for the KBC Holding Ordinary Shares which, when sold and exchanged into pounds sterling at prevailing market exchange rates, are intended to provide enough cash to enable the Fiscal Agent to make full payment of the Deferred Coupons or interest then due and payable. The Fiscal Agent will then transfer the KBC Holding Ordinary Shares to the purchasers thereof, and the Fiscal Agent will collect any sales proceeds and exchange them into pounds sterling at prevailing market exchange rates; and
- (v) on such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, the Fiscal Agent will apply such sales proceeds first, if applicable, towards the payment of any amounts to be borne by the Issuer or KBC Holding in connection with the use of the Alternative Coupon Payment Method, secondly, towards the payment, on behalf of the Holders of Securities, of all fees, costs and expenses of the Adviser and Expert in accordance with Condition 7(c) (*Alternative Coupon Payment Method – Appointment of Adviser*) and thirdly, towards the payment of the Deferred Coupons and Additional Amounts or interest then payable.

For the avoidance of doubt, payment of fees, costs and expenses of the Adviser and Expert, if any, in accordance with Condition 7(b)(v) shall fulfil the Issuer's obligation to pay interest on such Interest Payment Date or Mandatory Coupon Date only to the extent of such payment. However, in the case of a Deferred Coupon Satisfaction Date, the completion of the foregoing steps (i) through (v) will be in full satisfaction of the Issuer's obligation to pay any Deferred Coupon on a Deferred Coupon Satisfaction Date, without regard to whether the net sales proceeds ultimately delivered to the Holders of Securities are equal to the full amount of the Deferred Coupons and Additional Amounts that would be due and payable on such Deferred Coupon Satisfaction Date.

If the net sale proceeds from the sale of the KBC Holding Ordinary Shares available for distribution to Holders of Securities are less than the full amount of the Deferred Coupon and Additional Amounts or interest then payable, Holders of Securities will be paid rateably in any distribution of such proceeds, in proportion to the full amount of the Deferred Coupon and Additional Amounts or interest on such Holder's Securities.

The contributions referred to in paragraphs (ii) and (iii) above will take place by virtue of these Conditions, without the need for further consent or action by the Holders of Securities. The issuance of the Issuer Ordinary Shares and of the KBC Holding Ordinary Shares, will be recorded by authentic deeds made at the request of the board of directors of the Issuer and KBC Holding respectively, unless otherwise required by law.

- (c) *Appointment of Adviser:* For the purposes of determining the number of Issuer Ordinary Shares or KBC Holding Ordinary Shares to be issued under (ii) or (iii) above, a majority (in terms of principal amount of the outstanding Securities held) of the Holders of Securities may, at the expense of all Holders of Securities, request the Calculation Agent to seek the opinion of an internationally recognised investment bank selected by the Calculation Agent (the "**Adviser**"), on giving notice to the Issuer, KBC Holding and the Calculation Agent on or before the 15th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable. Once the Calculation Agent has received timely notice from a majority of the Holders of Securities in accordance with this Condition 7(c), no further

requests to seek the opinion of an Adviser shall be considered by the Calculation Agent in respect of such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date.

If the opinion of the Adviser differs from the judgment of the Calculation Agent, the Calculation Agent and the Adviser together shall seek to agree the appropriate number of Issuer Ordinary Shares or KBC Holding Ordinary Shares, as the case may be, to be issued.

If the Calculation Agent and the Adviser fail to reach agreement by the 12th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, a bank or other financial institution (the “**Expert**”) shall be appointed by the Calculation Agent and the Adviser, or, failing agreement on such appointment, by the Calculation Agent, to determine the number of Issuer Ordinary Shares or KBC Holding Ordinary Shares to be issued under (ii) or (iii) above, on or before the 9th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date. The Expert so appointed shall act as an expert and not as an arbitrator. In acting in accordance with this Condition 7(c), the Expert shall not assume any obligations towards or relationship of agency or trust for or with any of the Holders of Securities or Couponholders.

If by the 8th business day preceding such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, as applicable, (i) an Expert has not been duly appointed or (ii) the Expert has not determined the number of Issuer Ordinary Shares or KBC Holding Ordinary Shares to be issued under (ii) or (iii) above, then the Calculation Agent shall make the final determination of the number of Issuer Ordinary Shares or KBC Holding Ordinary Shares to be issued.

The number of Issuer Ordinary Shares or KBC Holding Ordinary Shares determined in accordance with this Condition 7(c) shall be binding on all Holders of Securities and Couponholders, the Issuer and KBC Holding, whether they requested the opinion of the Adviser or not.

All fees, costs and expenses of the Adviser and the Expert shall be borne by the Holders of Securities and will be deducted from the sales proceeds in accordance with Condition 7(b)(v). Neither the Issuer nor KBC Holding will be liable to pay any such fees, costs and expenses.

- (d) *Sufficiency of Issuer Ordinary Shares and KBC Holding Ordinary Shares:* The Issuer will be able to pay Deferred Coupons and interest (if it elects to do so) in accordance with the Alternative Coupon Payment Method only to the extent that (i) the Issuer has enough authorised capital and (ii) KBC Holding has enough authorised capital. The Issuer undertakes to use all reasonable efforts to ensure that it has sufficient authorised capital for this purpose. KBC Holding has undertaken in the Support Agreement to use all reasonable efforts to ensure that the Issuer has sufficient authorised capital and that KBC Holding has sufficient authorised capital respectively for this purpose, and in particular that at each annual general meeting of the Issuer and KBC Holding resolutions be passed authorising the issuance of such number of KBC Holding Ordinary Shares or Issuer Ordinary Shares as KBC Holding reasonably determines are sufficient to pay the interest scheduled to fall due on the Securities over the next twelve months in accordance with the Alternative Coupon Payment Method, except to the extent that KBC Holding reasonably determines that there is sufficient authorised capital for such purpose already in existence; *provided that* neither the Issuer nor KBC Holding shall be required to acquire any issued and outstanding Issuer Ordinary Shares or KBC Holding Ordinary Shares. If, notwithstanding such efforts, the available Issuer Ordinary Shares and/or KBC Holding Ordinary Shares are not sufficient to pay any amount of the Deferred Coupons that would otherwise be payable on a Deferred Coupon Satisfaction Date, then (and only in such event) the Deferred Coupon Satisfaction Date with respect to such amount will be postponed until such time as the shareholders of the Issuer and/or KBC Holding approve resolutions authorising the issuance of sufficient Issuer Ordinary Shares and/or KBC Holding Ordinary Shares, respectively.

- (e) *Market Disruption*: Notwithstanding the provisions of Condition 7(b), if there exists, in the opinion of the Issuer (subject, where necessary, to determinations made by the Calculation Agent) a Market Disruption Event on or after the 15th business day preceding any date upon which a Deferred Coupon or amount of interest is due to be made or satisfied in accordance with this Condition 7, then the Issuer may give a notice to the Fiscal Agent, the Calculation Agent, the Holders of Securities (in accordance with Condition 17 (*Notices*)) and (for so long as the Securities are listed on the Luxembourg Stock Exchange) the Luxembourg Stock Exchange as soon as possible after the Issuer determines that the Market Disruption Event has arisen or occurred, whereupon the obligation to pay or satisfy the relevant Deferred Coupon or amount of interest then due and payable shall be deferred until such time as (in the opinion of the Issuer) the Market Disruption Event no longer exists.

Any such payment or satisfaction of a Deferred Coupon or amount of interest or part thereof which is so deferred will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such Deferred Coupon or amount of interest or part thereof which is so deferred unless, as a consequence of the existence of a Market Disruption Event, the Issuer does not pay or otherwise satisfy the relevant Deferred Coupon or amount of interest or part thereof for a period of 14 days or more after such Deferred Coupon Satisfaction Date, Interest Payment Date or Mandatory Coupon Date, in which case interest shall accrue on such Deferred Coupon or amount of interest or part thereof which is so deferred from (and including) the date on which the relevant Deferred Coupon or amount of interest or part thereof was due to be made to (but excluding) the date on which such Deferred Coupon or amount of interest or part thereof is made. Any such interest shall accrue at the prevailing rate provided for in Condition 4 and shall be satisfied only in accordance with this Condition 7 and as soon as reasonably practicable after the relevant Deferred Coupon or amount of interest is paid or satisfied. No liability shall attach to the Fiscal Agent or the Calculation Agent if, as a result of a Market Disruption Event or any other event outside the control of the Fiscal Agent or the Calculation Agent, the Fiscal Agent or the Calculation Agent is unable to comply with the provisions of Condition 7(b).

As used in these Conditions, “**Market Disruption Event**” means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by Euronext Brussels or such other principal exchange of KBC Holding from time to time) or on settlement procedures for transactions in the KBC Holding Ordinary Shares on Euronext Brussels if, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material in the context of the sale of the KBC Holding Ordinary Shares, (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the KBC Holding Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the KBC Holding Ordinary Shares or (iii) where, pursuant to these Conditions, moneys are required to be converted from one currency into another currency in respect of any payment, the occurrence of any event that makes it impracticable to effect such conversion.

## 8. **Conversion into Conversion Upper Tier 2 Instruments and Redemption**

- (a) *No Fixed Redemption Date*: The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 3(a) (*Status and Support Agreement – Status of the Securities*) and 11 (*Events of Default*)), only have the right to repay them in accordance with the provisions of this Condition 8 (*Conversion into Conversion Upper Tier Instruments and Redemption*).

Any optional redemption or conversion of Securities pursuant to Condition 8(b) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption for tax reasons*) and 8(c) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Tier 1 Disqualification Event*) is subject to compliance with applicable regulatory requirements, including the prior approval of the CBF. In any event, no redemption of Securities will be



permitted if, before or after giving effect to such redemption or conversion, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer.

- (b) *Redemption for tax reasons:* Upon the occurrence of a Tax Event, and subject to the conditions set forth in this Condition 8, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Holders of Securities in accordance with Condition 17 (*Notices*), (i) at any time before the First Call Date, to redeem the Securities in whole (but not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price, (ii) on the First Call Date or any subsequent Interest Payment Date, to redeem the Securities in whole (but not in part) at the Base Redemption Price or (iii) at any time, to convert the Securities in whole (but not in part) into Conversion Upper Tier 2 Instruments.

For the purposes of the foregoing, “**Tax Event**” means the receipt by the Issuer of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Belgium experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of the Kingdom of Belgium or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position on the interpretation of any Administrative Action or any official interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification or change is effective or which official interpretation or pronouncement is announced on or after the date of issuance of the Securities, there is more than an insubstantial risk that (A) the Issuer is or will be required to pay any Additional Amounts or (B) any interest deduction or other similar direct or indirect tax benefit available to the Issuer in respect of the Securities is eliminated, reduced or otherwise adversely affected in any material respect.

- (c) *Tier 1 Disqualification Event:* Upon the occurrence of a Tier 1 Disqualification Event, and subject to the conditions set forth in this Condition 8, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Holders of Securities in accordance with Condition 17 (*Notices*), (i) at any time before the First Call Date, to redeem the Securities in whole (but not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price, (ii) on the First Call Date or any subsequent Interest Payment Date to redeem the Securities in whole (but not in part) at the Base Redemption Price or (iii) at any time, to convert the Securities in whole (but not in part) into Conversion Upper Tier 2 Instruments.

For the purposes of the foregoing, “**Tier 1 Disqualification Event**” means the receipt by the Issuer of an opinion or declaration, rule or decree of the CBF to the effect that there has been either (i) a change in law or regulation or (ii) a change in the official interpretation thereof, resulting in more than an insubstantial risk that the Securities (or any portion thereof) will no longer be capable of constituting tier 1 capital of the Issuer under Applicable Banking Regulations.

- (d) *Mandatory Conversion:* Upon the occurrence of a Supervisory Event or any event resulting in a general concursus creditorum on the assets of the Issuer, the Securities will be converted into Profit Sharing Certificates (in consideration for a contribution in kind of the Securities to the Issuer) (“**Mandatory Conversion**”), on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders of Securities in accordance with Condition 17 (*Notices*), having a total nominal value in pounds sterling equal to the aggregate of (i) the aggregate outstanding principal amount of the Securities, (ii) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period accrued on a daily basis to

(but excluding) the date of the Mandatory Conversion, (iii) unpaid Deferred Coupons, if any, and (iv) Additional Amounts, if any (the “**Mandatory Conversion Amount**”).

For the purposes of the foregoing, a “**Supervisory Event**” will be deemed to occur if (i) the amount of total regulatory capital (*eigen vermogen/fonds propres*) of the Issuer declines below the minimum amount required by solvency requirements for credit institutions as provided by the current and future European banking regulations and Basel guidelines, as currently translated by Article 82 § 1, 3° of the Decree of 5 December 1995 of the CBF on the regulation of the own funds of the credit institutions (the “**1995 Decree**”) (of which the current requirements include as their main component a total capital ratio of 8 per cent.), (ii) the amount of core tier 1 regulatory capital of the Issuer declines below 5/8 of the amount of total regulatory capital as required from time to time by Article 82 § 1, 3° of the 1995 Decree, (iii) Article 633 of the Belgian Company Code becomes applicable by virtue of the Issuer’s net assets becoming less than 50 per cent. of its corporate capital, (iv) Article 23 of the Belgian law of 22 March 1993 on the status and supervision of credit institutions (the “**Law of 22 March 1993**”) applies by virtue of the Issuer’s capital falling below EUR 6.2 million or (v) at the discretion of the CBF, in the event that Article 57 § 1 of the Law of 22 March 1993 becomes applicable due to the special measures imposed by the CBF in application thereof. For the purposes hereof, references to the 1995 Decree, the Law of 22 March 1993 and the provisions thereof shall be deemed to refer to the same as may be amended from time to time or replaced by other laws, regulations or provisions.<sup>3</sup>

The contribution referred to in this Clause 8(d) will take place by virtue of these Conditions, without the need for further consent or action by the Holders of Securities. The issuance of the Profit Sharing Certificates will be recorded by authentic deed made at the request of the board of directors of the Issuer.

- (e) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer, in whole (but not in part), on 19 December 2019 (the “**First Call Date**”) or on any subsequent Interest Payment Date; *provided that* the Issuer will give notice to Holders of Securities not less than 60 business days but not more than 90 business days prior to any such redemption on the First Call Date and not less than 30 days but not more than 60 days prior to any such redemption on any subsequent Interest Payment Date. This notice shall be given in accordance with Condition 17 (*Notices*).

The redemption price for such redemptions will be an amount equal to the aggregate of (i) the aggregate outstanding principal amount of the Securities, (ii) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period accrued on a daily basis to (but excluding) the Redemption Date, (iii) unpaid Deferred Coupons, if any, and (iv) Additional Amounts, if any (the “**Base Redemption Price**”).

Any redemption of the option of the Issuer pursuant to this Condition 8(e) is subject to compliance with applicable regulatory requirements, including the prior approval of the CBF. In any event, no redemption of Securities will be permitted if, before or after giving the effect to such redemption, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer.

- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Securities otherwise than as provided in paragraphs (a) (*No Fixed Redemption Date*) to (e) (*Redemption at the option of the Issuer*) above.
- (g) *Cancellation:* All Securities so redeemed and any unmatured Coupons or unexchanged Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

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<sup>3</sup> The 1995 Decree has been replaced by a decree of 17 October 2006 of the Banking, Finance and Insurance Commission (formerly the “CBF”), on the regulation of each funds of credit institutions and investment firms. Article 82 §1,3° of the 1995 Decree has been replaced by Article III.1 §1,3° of the decree of 17 October 2006. These requirements of the decree of 17 October 2006 continue to apply both on a consolidated and an unconsolidated basis.



## 9. Payments

- (a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Securities at the Specified Office of any Paying Agent outside the United States by Sterling cheque drawn on, or by transfer to a Sterling account maintained by the payee with, a bank in London.
- (b) *Interest*: Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Securities are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Holders of Securities or Couponholders in respect of such payments.
- (d) *Deduction for unmatured Coupons*: If a Security is presented without all unmatured Coupons relating thereto in respect of a Fixed Interest Period, then:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however*, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; *provided, however*, that where this sub paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however*, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void Coupons.

- (e) *Unmatured Coupons void*: On the due date for redemption of any Security pursuant to Condition 8(b) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption for tax reasons*), Condition 8(c) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Tier 1 Disqualification Event*), Condition 8(d) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Mandatory Conversion*), Condition 8(e) (*Conversion into Conversion Upper Tier 2 Instruments and Redemption – Redemption at the option of the Issuer*) or Condition 11 (*Events of Default*), all unmatured Coupons (if any)

relating thereto in respect of a Floating Interest Period (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (f) *Payments on business days:* If the due date for payment of any amount in respect of any Security or Coupon is not a payment business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding payment business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**payment business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.
- (g) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Securities at the Specified Office of any Paying Agent outside the United States.
- (h) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Security or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (i) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Securities (each, a “**Coupon Sheet**”), the Talon forming part of such Coupon Sheet may be exchanged (free of charge) at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 12 (*Prescription*)). Upon the due date for redemption of any Security, any unexchanged Talon relating to such Security shall become void and no Coupon will be delivered in respect of such Talon.

## 10. **Taxation**

- (a) All payments of principal and interest in respect of the Securities and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges (the “**Relevant Tax**”) is required by law. In that event the Issuer shall pay such additional amounts (the “**Additional Amounts**”) as will result in receipt by the Holders of Securities and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Security or Coupon:
  - (i) held or presented for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Security or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Security or Coupon; or
  - (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26—27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (iii) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a member state of the European Union; or
- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that the holder of such Security or Coupon would have been entitled to such additional amounts on presenting such Security or Coupon for payment on the last day of such period of 30 days; or
- (v) where the Relevant Tax is imposed or levied because the holder (or beneficial owner) has not made a declaration of non residence in, or other lack of connection with, Belgium or any similar claim for exemption, if the Issuer or its agent have given the beneficial owner or its nominee at least 60 days' prior written notice of an opportunity to make the declaration or claim; or
- (vi) where the Relevant Tax is imposed or levied because that holder (or beneficial owner) is not an Eligible Investor (unless that person was an Eligible Investor at the time of its acquisition of the relevant Security or Coupon and has since ceased from being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof), or is an Eligible Investor but is not holding the relevant Security or Coupon in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities.
- (vii) In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders of Securities.
- (viii) Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 10 (*Taxation*).
- (ix) If the Issuer becomes subject at any time to any taxing jurisdiction other than the Kingdom of Belgium references in these Conditions to the Kingdom of Belgium shall be construed as references to the Kingdom of Belgium and/or such other jurisdiction.

## 11. Events of Default

- (a) If any of the following events occurs and is continuing (each, an "**Event of Default**"):
  - (i) the Issuer fails to pay all mandatory due and payable Deferred Coupons on any Deferred Coupon Satisfaction Date and the default continues for a period of 30 days; or
  - (ii) the Issuer fails to pay all Mandatory Coupons, which are due and payable on any Mandatory Coupon Date, on such Mandatory Coupon Date and the default continues for a period of 30 days,

then Holders of Securities holding not less than one quarter of the aggregate principal amount of the outstanding Securities may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, institute proceedings to obtain the payment of the amounts due or to obtain the bankruptcy of the Issuer (or any analogous proceeding which may be available from time to time under the laws of Belgium). No remedy against the Issuer, other than the institution of the proceedings referred to above or proving in the bankruptcy, dissolution or liquidation of the Issuer, shall be available to the Holders of the Securities in respect of any Event of Default.

**12. Prescription**

Claims for principal shall become void unless the relevant Securities are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

**13. Replacement of Securities, Coupons and Talons**

If any Security, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Securities, Coupons or Talons must be surrendered before replacements will be issued.

**14. Paying Agents**

In acting under the Securities Agency Agreement and in connection with the Securities and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders of Securities or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however*, that the Issuer shall at all times maintain (a) a fiscal agent and a calculation agent, (b) a paying agent in Luxembourg, (c) a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26—27 November 2000 and (d) if Kredietbank S.A. Luxembourgaise becomes part of the KBC Group, a fiscal agent and a calculation agent, which is/are not part of the KBC Group.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Holders of Securities.

**15. Meetings of Holders of Securities; Modification**

- (a) *Meetings of Holders of Securities:* All meetings of Holders of the Securities will be held in accordance with the provisions of Articles 568 sq. of the Belgian Company Code with respect to bondholders meetings. Subject to the quorum and majority requirements set out in Article 574 of the Belgian Company Code, and if required thereunder subject to validation by the Brussels court of appeal, the meeting of Holders of the Securities shall be entitled to modify or waive any provision of these Conditions. Resolutions duly passed in accordance with these provisions of the Belgian Company Code at any meeting of Holders of the Securities shall be binding on all Holders of the Securities, whether or not they are present at the meeting and whether or not they vote in favour of such a resolution. A summary of such resolutions, setting out the decisions adopted at the meeting of Holders of Securities, shall be published in accordance with Condition 17 (*Notices*), so long as the Securities are listed on the Luxembourg Stock Exchange and its rules so require.

All convening notices for meetings of Holders of the Securities shall be made in accordance with Article 570 of the Belgian Company Code, which currently requires an announcement to be published twice, with an interval of not less than eight days and the second time not less than eight days prior to the meeting, in the Belgian Official Gazette ("*Moniteur Belge/Belgisch Staatsblad*"), in a newspaper of national distribution in Belgium and in a newspaper published

in the region where the Bank has its registered office.<sup>4</sup> Convening notices will also be published once, not less than eight days prior to the meeting, in accordance with Condition 17 (*Notices*).

- (b) *Meetings of Shareholders and Right to Information:* The Holders of the Securities shall be entitled to attend all General Meetings of Shareholders of the Issuer, in accordance with Article 537 of the Belgian Company Code, and they shall be entitled to receive or examine any documents that are to be remitted or disclosed to them in accordance with the Belgian Company Code. The Holders of the Securities who attend any General Meeting of Shareholders shall be entitled only to a consultative vote. Convening notices will also be published once, not less than eight days prior to the meeting, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*), so long as the Securities are listed on the Luxembourg Stock Exchange and its rules so require.
- (c) *Modification:* The Securities, these Conditions, the Deed of Covenant and the Support Agreement may be amended without the consent of the Holders of Securities or the Couponholders to correct a manifest error. In addition, the parties to the Securities Agency Agreement, Deed of Covenant or to the Support Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Holders of Securities, granted in accordance with paragraph (a) (*Meetings of Holders of Securities*) above, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Holders of Securities.

#### 16. **Further Issues**

The Issuer may from time to time, without the consent of the Holders of Securities or the Couponholders, create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Securities.

#### 17. **Notices**

Subject as provided below, notices to the Holders of Securities shall be valid if published in a leading English newspaper in London (which is expected to be the *Financial Times*) (and, so long as the Securities are listed on the Luxembourg Stock Exchange and its rules so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*)). In either case, if such publication is not practicable, notices to the Holders of Securities shall be valid if published in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Securities. This Condition 17 shall not apply to notices given pursuant to Condition 15(b) (*Meetings of Holders of Securities; Modification – Meetings of Shareholders and Right to Information*).

#### 18. **Redenomination, Renominalisation and Reconventioning**

- (a) *Notice of redenomination:* If the United Kingdom becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Holders of Securities and Couponholders, on giving at least 30 days' prior notice to the Holders of Securities and the Paying Agents, designate a date (the “**Redenomination Date**”), being an Interest Payment Date under the Securities falling on or after the date on which the United Kingdom becomes a Participating Member State.
- (b) *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

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<sup>4</sup> At the date of publication of this Prospectus, the requirement is for an announcement to be published, at the latest 15 days prior to the meeting, in the Belgian Official Gazette (“*Moniteur Belge/Belgisch Staatsblad*”) and in a newspaper of national distribution in Belgium.



- (i) the Securities shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Security equal to the principal amount of that Security in Sterling, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however*, that, if the Issuer determines, with the agreement of the Fiscal Agent, that market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Holders of Securities and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Securities have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
- (ii) if Securities have been issued in definitive form:
  - (A) all unmatured Coupons denominated in Sterling (whether or not attached to the Securities) will become void with effect from the date (the “**Euro Exchange Date**”) on which the Issuer gives notice (the “**Euro Exchange Notice**”) to the Holders of Securities that replacement Securities and Coupons denominated in euro are available for exchange (*provided that* such Securities and Coupons are available) and no payments will be made in respect thereof;
  - (B) the payment obligations contained in all Securities denominated in Sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Securities in accordance with this Condition 18) shall remain in full force and effect; and
- (iii) new Securities and Coupons denominated in euro will be issued in exchange for Securities and Coupons denominated in Sterling in such manner as the Fiscal Agent may specify and as shall be notified to the Holders of Securities in the Euro Exchange Notice; and
- (iv) all payments in respect of the Securities (other than, unless the Redenomination Date is on or after such date as Sterling ceases to be a sub division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in by euro cheque drawn on, or by credit or transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a country in a city in which banks have access to the (Trans European Automated Real time Gross settlement Express Transfer (TARGET) system.
- (c) *Interest*: Following redenomination of the Securities pursuant to this Condition 18, where Securities have been issued in definitive form, the amount of interest due in respect of the Securities will be calculated by reference to the aggregate principal amount of the Securities presented (or, as the case may be, in respect of which Coupons are presented) for payment by or on behalf of the relevant Holder of Securities.
- (d) *Interpretation*: In this Condition:
 

“**Participating Member State**” means a member state of the European Union which adopts the euro as its lawful currency in accordance with the Treaty; and “**Treaty**” means the Treaty establishing the European Community, as amended.

## 19. Governing Law and Jurisdiction

- (a) *Governing law*: The Securities and all matters arising from or connected with the Securities are governed by, and shall be construed in accordance with, English law.



- (b) *English courts:* The courts of England have non-exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Securities.
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Service of process:* The Issuer agrees that the documents which start any proceedings relating to a Dispute (“**Proceedings**”) and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to KBC Bank NV, London Branch at 111 Old Broad Street, 5th Floor, London EC2N 1BR or at any address of the Issuer in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of any Holder of Securities to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.

## SCHEDULE

### TERMS AND CONDITIONS OF THE PROFIT-SHARING CERTIFICATES

The Profit Sharing Certificates will be issued in certain circumstances set out in Condition 2.1 (*Issuance of the Profit Sharing Certificates – Circumstances*) by KBC Bank NV (the “**Issuer**”), pursuant to a resolution of the Issuer’s general shareholders meeting passed on 29 April 2004, a resolution of the Issuer’s general shareholders meeting passed on 27 April 2005 and another resolution by the general meeting of shareholders of the Issuer (at the latest) at the next extraordinary shareholders meeting of the Issuer when the statutes of the Issuer are amended.

The Profit Sharing Certificates are the subject of (a) a contingent guarantee agreement dated 19 December 2003 (as amended or supplemented from time to time, the “**Contingent Guarantee Agreement**”) between the Issuer and KBC Bank and Insurance Holding Company NV (currently, KBC Group NV) (“**KBC Holding**”) and (b) an agency agreement dated 19 December 2003 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Kredietbank SA Luxembourgeoise as fiscal agent and calculation agent (the “**Fiscal Agent**” and the “**Calculation Agent**”, which expressions includes any successor fiscal agent or calculation agent appointed from time to time in connection with the Profit Sharing Certificates) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Profit Sharing Certificates). Certain provisions of these terms and conditions (the “**Conditions**”) are summaries of the Contingent Guarantee Agreement and the Agency Agreement and subject to their detailed provisions. The holders of the Profit Sharing Certificates (the “**Holders of Profit Sharing Certificates**” or the “**Holders**”) and the holders of the related dividend coupons are bound by, and are deemed to have notice of, all the provisions of the Contingent Guarantee Agreement and the Agency Agreement applicable to them. Copies of the Contingent Guarantee Agreement and the Agency Agreement are available for inspection by any interested person during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

#### 1. DEFINITIONS

- 1.1 Terms used in these Conditions in relation to the Securities referred to below will have the meaning defined in the Terms and Conditions of those Securities. In addition, in these Conditions the following expressions have the following meanings:

“**Applicable Banking Regulations**” means at any time the capital adequacy regulations then in effect of the CBF or other regulatory authority in Belgium (or if the Issuer becomes domiciled in a jurisdiction other than Belgium, such other jurisdiction) having primary bank supervisory authority with respect to the Issuer.

“**CBF**” means the Belgian Banking and Finance Commission (*Commission Bancaire et Financière/Commissie voor het Bank en Financiewezen*), together with any successor authority that administers the Applicable Banking Regulations.

“**Distribution Date**” means a Fixed Distribution Payment Date or a Floating Distribution Payment Date, as defined in Conditions 4.2 and 4.3 (*Distributions – Fixed distributions and Floating distributions*).

“**Distribution Period**” means a Floating Distribution Period or a Fixed Distribution Period, as defined in Conditions 4.2 and 4.3 (*Distributions – Fixed distributions and Floating distributions*).

“**Exchange Upper Tier 2 Instruments**” means instruments constituting “**upper tier 2**” regulatory capital of the Issuer under Applicable Banking Regulations having the same material terms as the Profit Sharing Certificates, except that each such instrument will (i) be a perpetual security issued by the Issuer with cumulative interest, (ii) rank *pari passu* with any other upper tier 2 capital securities issued by the Issuer, (iii) not be redeemable upon a Tier 1 Disqualification Event, and (iv) be subject

to such terms and conditions as may be required under the Applicable Banking Regulations to be capable of constituting “**upper tier 2**” regulatory capital of the Issuer. The terms of such Exchange Upper Tier 2 Instruments will be documented by the Issuer and may be reflected in one or more agency agreements or in an agency agreement supplemental to the Agency Agreement, without the consent of the Holders of Profit Sharing Certificates, at the time of conversion.

“**Issuer Ordinary Shares**” means ordinary shares of the Issuer or any ordinary share equivalent that may replace or be substituted for the ordinary shares of the Issuer.

“**Junior Securities**” means, with respect to the Issuer or KBC Holding, (i) Issuer Ordinary Shares or KBC Holding Ordinary Shares, (ii) profit sharing certificates (*winstbewijzen/parts bénéficiaires*) of the Issuer or KBC Holding ranking junior to the Parity Securities of the Issuer or KBC Holding, as the case may be, or (iii) any other securities or obligations of the Issuer or KBC Holding ranking or expressed to rank junior to the Parity Securities of the Issuer or KBC Holding, as the case may be, whether issued directly by the Issuer or KBC Holding or by any subsidiary of the Issuer or KBC Holding benefiting from a guarantee or support agreement from the Issuer or KBC Holding ranking or expressed to rank junior to the Profit Sharing Certificates and the Support Agreement.

“**KBC Holding Ordinary Shares**” means ordinary shares of KBC Holding or any ordinary share equivalent that may replace or be substituted for the ordinary shares of KBC Holding.

“**London Interbank Sterling Offered Rate**” means, in respect of any period, the offered rate in the London interbank market for pounds sterling deposits for such period, as determined by the Calculation Agent in accordance with the provisions of the Agency Agreement.

“**Mandatory Distribution**” means a distribution on the Profit Sharing Certificates which is mandatorily payable pursuant to Condition 6 (*Mandatory distributions*).

“**Net Assets Deficiency Event**” means (a) with respect to the Issuer or KBC Holding, a decline in the net assets of the Issuer or KBC Holding respectively to below the sum of its paid in capital and nondistributable reserves, as determined in accordance with, or by applying the computation method provided in, Article 617 of the Company Code in relation to the distribution of dividends, or (b) with respect to the Issuer, a decline in the amount of total regulatory capital (*eigen vermogen/fonds propres*) of the Issuer to below the minimum amount required by solvency requirements for credit institutions as provided by the current and future European banking regulations and Basel guidelines, as currently translated by Article 82 §1, 3° of the Decree of 5 December 1995 of the CBF on the regulation of the own funds of the credit institutions (the “**1995 Decree**”) (of which the current requirements include as their main component a total capital ratio of 8 per cent.). For the purposes hereof, references to the 1995 Decree and the provisions thereof will be deemed to refer to the same as may be amended from time to time or replaced by other laws, regulations or provisions.

“**Parity Securities**” means, with respect to the Issuer or KBC Holding, (i) the most senior ranking preferred or preference shares or profit sharing certificates (*winstbewijzen/parts bénéficiaires*) (“**Parity Shares**”) of the Issuer or KBC Holding, if any, and (ii) guarantees by the Issuer or KBC Holding (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred securities or preferred or preference shares issued by any of the Issuer’s or KBC Holding’s subsidiaries, ranking or expressed to rank *pari passu* with the Issuer’s or KBC Holding’s Parity Shares (“**Parity Guarantees**”).

“**Permitted Share Acquisition**” means an acquisition of Junior Securities or Parity Securities (i) by simultaneous replacement with other Junior Securities or, as the case may be, Parity Securities of the same aggregate principal amount and the same or a lower ranking, (ii) in connection with transactions effected for the account of customers of the Issuer or KBC Holding or any of their subsidiaries or in connection with the distribution, trading or market making in respect of such securities, (iii) in connection with the satisfaction by the Issuer or KBC Holding or any of their subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of

employees, officers, directors or consultants. For the avoidance of doubt, Set Rate Parity Securities may be replaced with new Set Rate Parity Securities, subject to (i) above, but Parity Securities which are not Set Rate Parity Securities may not be replaced by Set Rate Parity Securities.

“**Securities**” means the £525,000,000 Directly Issued Perpetual Debt Securities issued by the Issuer on 19 December 2003 (£200,000,000), on 3 November 2004 (£175,000,000) and on 12 October 2007 (£150,000,000), as well as any further securities issued pursuant to Condition 16 (*Further Issues*) of the Securities, in each case forming a single series therewith.

“**Set Rate Parity Securities**” means Parity Securities carrying a right to a set level of dividend (whether by reference to a fixed or floating rate or otherwise), as opposed to a right to dividend which, subject to the availability of profits, is essentially discretionary.

## 2. ISSUANCE OF THE PROFIT SHARING CERTIFICATES

- 2.1 *Circumstances:* The Profit Sharing Certificates will be issued upon the occurrence of a Supervisory Event or any event resulting in a general concursus creditorum on the assets of the Issuer, on the Issuer giving not less than 30 nor more than 60 days’ notice to the Holders of Securities in accordance with Condition 17 (*Notices*) of the Securities.

For the purposes of the foregoing, a “**Supervisory Event**” will be deemed to occur if (i) the amount of total regulatory capital (*eigen vermogen/fonds propres*) of the Issuer declines below the minimum amount required by solvency requirements for credit institutions as provided by the current and future European banking regulations and Basel guidelines, as currently translated by Article 82 §1, 3° of the Decree of 5 December 1995 of the CBF on the regulation of the own funds of the credit institutions (the “**1995 Decree**”) (of which the current requirements include as their main component a total capital ratio of 8 per cent.), (ii) the amount of core tier 1 regulatory capital of the Issuer declines below 5/8 of the amount of total regulatory capital as required from time to time by Article 82 §1, 3° of the 1995 Decree, (iii) Article 633 of the Belgian Company Code becomes applicable by virtue of the Issuer’s net assets becoming less than 50 per cent. of its corporate capital, (iv) Article 23 of the Belgian law of 22 March 1993 on the status and supervision of credit institutions (the “**Law of 22 March 1993**”) applies by virtue of the Issuer’s capital falling below EUR 6.2 million or (v) at the discretion of the CBF, in the event that Article 57 §1 of the Law of 22 March 1993 becomes applicable due to the special measures imposed by the CBF in application thereof. For the purposes hereof, references to the 1995 Decree, the Law of 22 March 1993 and the provisions thereof will be deemed to refer to the same as may be amended from time to time or replaced by other laws, regulations or provisions.<sup>5</sup>

- 2.2 *Consideration:* The Profit Sharing Certificates will be issued in consideration for the contribution in kind to the Issuer of the outstanding Securities and all outstanding rights attached thereto.
- 2.3 *Amount:* The Profit Sharing Certificates will be issued with a total nominal value in pounds sterling equal to the sum of (i) the aggregate principal amount of the outstanding Securities, (ii) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period accrued on a daily basis to (but excluding) the date of the Mandatory Conversion, (iii) unpaid Deferred Coupons, if any, and (iv) Additional Amounts, if any.
- 2.4 *Powers:* The contribution referred to in Condition 2.2 (*Consideration*) above will take place by virtue of the terms and conditions of the Securities, without the need for further consent or action by the Holders of Securities. The issuance of the Profit Sharing Certificates will be recorded by authentic deed made at the request of the board of directors of the Issuer, unless otherwise required by law.

## 3. NATURE, DENOMINATION, FORM AND STATUS

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<sup>5</sup> The 1995 Decree has been replaced by a decree of 17 October 2006 of the Banking, Finance and Insurance Commission (formerly the “CBF”), on the regulation of each funds of credit institutions and investment firms. Article 82 § 1,3<sup>o</sup> of the 1995 Decree has been replaced by Article III.1 § 1,3<sup>o</sup> of the decree of 17 October 2006. These requirements of the decree of 17 October 2006 continue to apply both on a consolidated and an unconsolidated basis

- 3.1 *Nature*: The Profit Sharing Certificates constitute *winstbewijzen/parts bénéficiaires* as described under Article 483 of the Company Code. They do not represent the capital of the Issuer.
- 3.2 *Denomination*: The denomination of each Profit Sharing Certificate is equal to the total nominal value issued in accordance with Condition 2.3 (*Issuance of the Profit Sharing Certificates – Amount*), divided by the number of outstanding Securities contributed in consideration for their issuance. The denomination of the Profit Sharing Certificates will be expressed in pounds sterling.
- 3.3 *Form*: If the board of directors or executive committee of the Issuer determines that Profit Sharing Certificates in registered form or in the form of a global bearer certificate are able to be cleared through CIK (*Interprofessionele effectendeposito- en girokas/Caisse interprofessionnelle de dépôts et de virements de titres*), Euroclear and/or Clearstream, Luxembourg or their respective successors, the Profit Sharing Certificates will be in those forms. If not, the Profit Sharing Certificates will be in bearer or registered form at the choice of the Holders as so notified to the Issuer.
- 3.4 *Status*: The Profit Sharing Certificates constitute unsecured subordinated obligations of the Issuer. In the event of a general concursus creditorum (*concoures des créanciers/samenloop van schuldeisers*) on the entire assets of the Issuer, the rights of the Holders of Profit Sharing Certificates will rank behind those of all creditors of the Issuer, including subordinated creditors (other than those, if any, whose claims are capable of constituting tier 1 regulatory capital of the Issuer), and their payment will be subject to the condition precedent that all such creditors of the Issuer will have been paid in full. The Holders of Profit Sharing Certificates will rank equally with the Parity Securities of the Issuer and will rank ahead of the Junior Securities of the Issuer. In a liquidation of the Issuer, the Holders of Profit Sharing Certificates will be entitled to the repayment of the nominal value of the Profit Sharing Certificates, subject to the above ranking provisions, but will not be entitled to share in further liquidation proceeds of the Issuer.

#### 4. DISTRIBUTIONS

- 4.1 *Conditional entitlement*: The Holders of Profit Sharing Certificates are entitled to the distributions set out in this Condition 4, subject only to the availability of distributable profits in accordance with Article 617 of the Company Code and to the condition set out in Condition 4.5 (*Net assets deficiency*). Those distributions will be made in priority to any dividend distribution on the Junior Securities of the Issuer. Distributions will be calculated and paid in pounds sterling.
- 4.2 *Fixed distributions*: If the Profit Sharing Certificates are issued before 19 December 2019, the distribution entitlement until (but excluding) that date will be calculated at the rate of 6.202 per cent. per annum on their nominal amount, payable in arrear on 19 December in each year (each, a “**Fixed Distribution Payment Date**”). On the first Fixed Distribution Payment Date following the date of issue of the Profit Sharing Certificates, the amount of the distribution will be calculated *pro rata temporis*, provided that no distribution will accrue on that first Fixed Distribution Payment Date on the part of the nominal value of the Profit Sharing Certificates which is referred to in item (ii) of Condition 2.3 (*Issuance of the Profit Sharing Certificates – Amount*). For the purposes hereof and of Condition 8.5 (*Redemption – Redemption price*), *pro rata* accruals will be calculated on the basis of the actual number of days elapsed and the actual number of days in the Fixed Distribution Period. “**Fixed Distribution Period**” means each period from (and including) the issue date of the Securities (being 19 December 2003) or any Fixed Distribution Payment Date to (but excluding) the next Fixed Distribution Payment Date.
- 4.3 *Floating distributions*: After 19 December 2019, the distribution entitlement will be calculated at the Floating Distribution Rate and will be payable on each 19 March, 19 June, 19 September and 19 December in each year (each, a “**Floating Distribution Payment Date**”). If any Floating Distribution Payment Date would otherwise fall on a date which is not a London Business Day (as defined below), it will be postponed to the next London Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding London Business Day. Each period beginning on (and including) 19 December 2019 or the issue date of the Profit Sharing Certificates (whichever is later) or any Floating Distribution Payment Date and ending on (but



excluding) the next Floating Distribution Payment Date is herein called a “**Floating Distribution Period**”.

The Floating Distribution Rate for a Floating Distribution Period will be the sum of the London Interbank Sterling Offered Rate for such period and 1.93 per cent. per annum. If the Profit Sharing Certificates are issued after 19 December 2019, then for the first Floating Distribution Period following the date of issue, the amount of the distribution will be calculated *pro rata temporis*, provided that no distribution will accrue on that first Floating Distribution Payment Date on the part of the nominal value of the Profit Sharing Certificates which is referred to in item (ii) of Condition 2.3 (*Issuance of the Profit Sharing Certificates – Amount*) and, unless the Profit Sharing Certificates were issued on a Floating Distribution Payment Date, the Floating Distribution Rate will be the same as the Floating Rate of Interest prevailing in respect of the Securities at the time of issuance of the Profit Sharing Certificates. For the purposes hereof and of Condition 8.5 (*Redemption – Redemption price*), pro rata accruals will be calculated on the basis of the actual number of days elapsed in the Floating Distribution Period and a year of 365 days (or, if any portion of the Floating Distribution Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Floating Distribution Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Floating Distribution Period falling in a non leap year divided by 365).

“**London Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

- 4.4 *Calculations and publication:* The amount of distribution payable on each Floating Distribution Payment Date will be calculated by the Calculation Agent, and such amount and each Floating Distribution Rate will be published by the Calculation Agent, in accordance with the provisions of the Agency Agreement and notified by the Calculation Agent, as soon as practicable after such determination, to each listing authority, stock exchange and/or quotation system (if any) by which the Profit Sharing Certificates have been admitted to listing, trading and/or quotation.
- 4.5 *Net assets deficiency:* If and to the extent that, before or after giving effect to any distribution on the Profit Sharing Certificates, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer, the Issuer will not declare any such distribution (subject to Condition 6 (*Mandatory distributions*)).
- 4.6 *Distributions not cumulative:* Any distribution missed by reason of the application of Condition 4.5 (*Net assets deficiency*) or of insufficiency of distributable profits in accordance with Article 617 of the Company Code will be definitively forgone, and the Holders of Profit Sharing Certificates will not be entitled to any carry forward of such missed distribution.

## 5. **DIVIDEND STOPPER**

- 5.1 *Issuer:* If a full distribution has not been paid on the Profit Sharing Certificates on any Distribution Date, then the Issuer will not, for a period of twelve months after such Distribution Date, declare or pay any dividend on its Junior Securities or Parity Securities or redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition).
- 5.2 *KBC Holding:* KBC Holding has agreed in the Contingent Guarantee Agreement that, if a full distribution has not been paid on the Profit Sharing Certificates on any Distribution Date, then for a period of twelve months after such Distribution Date (A) it (i) will not propose to its shareholders and, to the fullest extent permitted by applicable law, will otherwise act to prevent the declaration or payment of any dividend on its Junior Securities or Parity Securities and (ii) will not redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), and (B) it will not vote, and will procure that no vote is cast by any of its subsidiaries, in favour of any of the actions of the Issuer described in Condition 5.1 (*Dividend stopper – Issuer*) above.



- 5.3 *Partial distributions*: If a partial distribution is paid on the Profit Sharing Certificates on any Distribution Date, Conditions 5.1 and 5.2 (*Dividend stopper – Issuer and KBC Holding*) will not prevent the distribution of a partial dividend, in the same proportion, on any Set Rate Parity Securities during the period beginning on such Distribution Date and ending before the next succeeding Distribution Date.
- 5.4 *Exchange Upper Tier 2 Instruments*: The Issuer agrees and KBC Holding has agreed in the Contingent Guarantee Agreement that the provisions thereof relating to the Dividend Stopper described in this Condition 5 will, after the conversion of all (but not part) of the Profit Sharing Certificates into Exchange Upper Tier 2 Instruments in accordance with Condition 8.4 (*Redemption – Redemption upon Tier 1 Disqualification Event*), continue to apply *mutatis mutandis* by reference to the deferral of interest payments due under the Exchange Upper Tier 2 Instruments.
- 5.5 *Enforcement by the Issuer*: The Issuer undertakes promptly to take all necessary steps to enforce the terms of the Contingent Guarantee Agreement against KBC Holding in case of breach thereof.

## 6. MANDATORY DISTRIBUTIONS

- 6.1 *Circumstances*: Notwithstanding Condition 4.5 (*Distributions – Net assets deficiency*), but subject always to the availability of distributable profits in accordance with Article 617 of the Company Code, if the Issuer or KBC Holding (A) pays any dividend on any of its Junior Securities or Parity Securities or (B) redeems, repurchases or otherwise acquires any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), then the distributions payable on each Distribution Date occurring during the Relevant Period (as defined below) will be mandatorily payable on each such date.
- 6.2 *Partial distributions*: If a partial distribution is paid on any Set Rate Parity Securities, Condition 6.1 (*Mandatory distributions – Circumstances*) will only render mandatory the payment of a partial distribution, in the same proportion, on the Profit Sharing Certificates during the Relevant Period.
- 6.3 *Relevant Period*: For the purposes of the foregoing, “**Relevant Period**” means:
- (a) for any Relevant Period commencing on or before 19 December 2019, one year; *provided that* if such Relevant Period commences after 19 December 2018, it will end on and include 19 December 2019; and
  - (b) for any Relevant Period commencing after 19 December 2019:
    - (i) one year, in the case of (A) any dividend on Junior Securities or Parity Securities that have annual scheduled payments or have no scheduled payment dates, or (B) any redemption, repurchase or other acquisition of Junior Securities or Parity Securities,
    - (ii) six months, in the case of any dividend on Junior Securities or Parity Securities that have semi annual scheduled payments, and
    - (iii) three months, in the case of any dividend on Junior Securities or Parity Securities that have quarterly (or more frequent) scheduled payments,

provided in each case that such Relevant Period (unless it commences after 19 December 2018 and ends on and includes 19 December 2019) will commence on and include the day of the relevant dividend or redemption, repurchase or other acquisition but will not include the corresponding day of the third, sixth or twelfth month thereafter, as the case may be.

## 7. TAXATION

All distribution payments in respect of the Profit Sharing Certificates by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or

deduction of such taxes, duties, assessments or governmental charges (the “**Relevant Tax**”) is required by law. In that event the Issuer will pay such additional amounts (the “**Supplemental Amounts**”) as will result in receipt by the Holders of Profit Sharing Certificates after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Supplemental Amounts will be payable in respect of any Profit Sharing Certificate:

- 7.1 held or presented for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Profit Sharing Certificate by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Profit Sharing Certificate; or
- 7.2 presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Profit Sharing Certificate to another paying agent of the Issuer in a member state of the European Union; or
- 7.3 presented for payment more than 30 days after the Relevant Date except to the extent that the holder of such Profit Sharing Certificate would have been entitled to such additional amounts on presenting such Profit Sharing Certificate for payment on the last day of such period of 30 days; or
- 7.4 where or to the extent that the Relevant Tax is imposed or levied because the holder (or beneficial owner) has not made a declaration or claim for exemption or reduction of the Relevant Tax, if the Issuer or its agent have given the beneficial owner or its nominee at least 60 days’ prior written notice of an opportunity to make the declaration or claim.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders of Profit Sharing Certificates. Any reference in these Conditions to distributions will be deemed to include any Supplemental Amounts which may be payable under this Condition 7.

## 8. **REDEMPTION**

- 8.1 *No fixed redemption date:* The Profit Sharing Certificates do not have a fixed redemption date.
- 8.2 *No redemption at the option of the Holders:* The Profit Sharing Certificates are not redeemable at the option of the Holders.
- 8.3 *Redemption at the option of the Issuer:* The Profit Sharing Certificates may be redeemed at the option of the Issuer, in whole (but not in part), on 19 December 2019 (the “**First Call Date**”) or on any subsequent Distribution Date at the Base Redemption Price; *provided that* the Issuer will give notice to the Holders of Profit Sharing Certificates not less than 60 business days but not more than 90 business days prior to any such redemption on the First Call Date and not less than 30 days but not more than 60 days prior to any such redemption on any subsequent Distribution Date.
- 8.4 *Redemption upon Tier 1 Disqualification Event:* Upon the occurrence of a Tier 1 Disqualification Event, the Issuer will have the right by giving not less than 30 nor more than 60 days’ notice to the Holders of Profit Sharing Certificates in accordance with Condition 15 (*Notices*), (i) at any time before the First Call Date, to redeem the Profit Sharing Certificates in whole (but not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price, (ii) on the First Call Date or on any subsequent Distribution Date, to redeem the Profit Sharing Certificates in whole (but not in part) at the Base Redemption Price, or (iii) at any time, to convert the Profit Sharing Certificates in whole (but not in part) into Exchange Upper Tier 2 Instruments. For the purposes of the foregoing, “**Tier 1 Disqualification Event**” means the receipt by the Issuer of an opinion or declaration, rule or decree of the CBF to the effect that there has been either (i) a change in law or regulation or (ii) a change in the official interpretation thereof, resulting in more than an

insubstantial risk that the Profit Sharing Certificates (or any portion thereof) will no longer be capable of constituting tier 1 capital of the Issuer under Applicable Banking Regulations.

- 8.5 *Redemption price:* For the purposes of the foregoing, “**Base Redemption Price**” means an amount equal to the aggregate of (i) the aggregate nominal value of the Profit Sharing Certificates and (ii) an amount equal to *pro rata* unpaid distributions, if any, with respect to the current Distribution Period accrued up to the date fixed for redemption, including Supplemental Amounts, if any, in accordance with Condition 7 (*Taxation*). “**Make Whole Amount**” means a price for the Profit Sharing Certificates such that the gross redemption yield of the Profit Sharing Certificates, calculated on the assumption of full distributions made from the date fixed for redemption until the First Call Date and of a redemption at the nominal value on the First Call Date, is equal to the gross redemption yield of a benchmark UK government bond plus 0.5 per cent., all as determined by the Calculation Agent in accordance with the provisions of the Agency Agreement. The Base Redemption Price and the Make Whole Amount will be expressed in pounds sterling.
- 8.6 *Conditions and procedure:* Any redemption or conversion of Profit Sharing Certificates is subject to compliance with all applicable regulatory requirements, including the prior approval of the CBF. In any event, no redemption of Profit Sharing Certificates will be permitted if, before or after giving effect to any distribution on the Profit Sharing Certificates, a Net Assets Deficiency Event has occurred and is continuing with respect to the Issuer. Any redemption of Profit Sharing Certificates will further be subject to the conditions and procedures set out in Articles 612, 613 and 620 of the Company Code (save that Articles 612 and 613 will not apply in the case of a redemption made in accordance with Condition 8.4 (*Redemption – Redemption upon Tier 1 Disqualification Event*)); for the avoidance of doubt, any redemption or conversion decided in execution of this Condition 8 will not constitute a modification to the respective rights of the Holders of Profit Sharing Certificates compared to the rights of the holders of any shares or other profit sharing certificates of the Issuer for the purposes of Article 560 of the Company Code, and the Holders of Profit Sharing Certificates will not be entitled to vote on any decision made in accordance with Articles 612 and 620 of the Company Code.
- 8.7 *No further rights:* Upon redemption of the Profit Sharing Certificates, their Holders will cease to be entitled to any subsequent distribution or other rights.

## 9. CONTINGENT GUARANTEE

- 9.1 *Mandatory distributions:* KBC Holding has agreed in the Contingent Guarantee Agreement to pay any Mandatory Distribution if and to the extent that the Issuer has not paid the same when due. KBC Holding has the option to satisfy this obligation by either (i) making the required payment directly to the Holders of Profit Sharing Certificates or (ii) making a contribution to the capital or own funds of the Issuer sufficient to permit the Issuer to pay the relevant Mandatory Distribution.
- 9.2 *Exceptions:* No such payment or contribution will be required if and to the extent that, before or after giving effect to such contribution, a Net Assets Deficiency Event has occurred and is continuing with respect to KBC Holding or KBC Holding would not be solvent or would be in a situation of cessation of payment (*cessation de paiement/staking van betalen*); *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to KBC Holding, such payment or contribution will be required in connection with any Mandatory Distribution that is triggered by payment of dividends or redemptions, repurchases or other acquisitions in respect of Junior Securities or Parity Securities of KBC Holding.
- 9.3 *Preference shares:* The Issuer agrees and KBC Holding has agreed in the Contingent Guarantee Agreement not to authorise unilaterally, and not to propose to their shareholders to authorise, the issue of any additional Junior Securities or Parity Securities unless they are subject to the dividend stopper set out in Condition 5 (*Dividend stopper*).

## **10. VOTING AND PREFERENCE RIGHTS**

- 10.1 *Voting rights:* The Holders of Profit Sharing Certificates will have no voting rights, save in the cases mandatorily provided by the Company Code. They will not be entitled to attend shareholders meetings, save when they are entitled to vote.
- 10.2 *Preference rights:* The Holders of Profit Sharing Certificates will have no preference rights in respect of any subsequent issuance of shares, profit sharing certificates (*winstbewijzen/parts bénéficiaires*) or other securities by the Issuer.

## **11. ACCOUNTING TREATMENT**

The contributions made in consideration for the issuance of the Profit Sharing Certificates will be accounted for as an unavailable reserve. This reserve may only be reduced in accordance with Articles 612 to 614 of the Company Code, save in the case of a redemption made in accordance with Condition 8.4 (*Redemption – Redemption upon Tier 1 Disqualification Event*). The reserve representing the Profit Sharing Certificates may be reduced by way of absorption of losses in accordance with Article 614 of the Company Code; the entitlement of the Holders of Profit Sharing Certificates to distributions in accordance with these Conditions, however, will continue irrespective of any such reduction even if it results in the full cancellation of the reserve representing the Profit Sharing Certificates.

## **12. AMENDMENTS**

These Conditions and the Contingent Guarantee Agreement may be amended without the consent of the Holders of Profit Sharing Certificates to correct a manifest error. The rights attached to the Profit Sharing Certificates and these Conditions may be amended in accordance with the rules applicable to modifications to the statutes of the Issuer, taking into account Article 560 of the Company Code as the case may be. The parties to the Agency Agreement or to the Contingent Guarantee Agreement may agree to modify any provision thereof, but the Issuer will not agree, without the consent of the Holders of Profit Sharing Certificates granted in a general meeting with the same conditions of quorum and majority as those required for modifications to the statutes, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Holders of Profit Sharing Certificates.

## **13. TRANSFERABILITY**

The transferability of Profit Sharing Certificates is subject to the provisions of Article 508 of the Company Code (which provides that: “Profit sharing certificates are transferable from the tenth day after the filing of the second annual accounts that follows their issuance. Until the end of that period their transfer may only be operated by public deed or by written agreement, notified to the company within a month of the transfer, all this under sanction of nullity. The nullity may only be invoked by the purchaser”), to the extent applicable.

In accordance with Articles 463, 465 and 508 of the Company Code, the register of Profit Sharing Certificates, any certificates evidencing inscriptions in the register of Profit Sharing Certificates, and any certificate of deposit (*depositobewijs/certificat de dépôt*) in respect of Profit Sharing Certificates in bearer form shall mention the transferability conditions set out in this Condition 13.

## **14. FURTHER ISSUES**

The Issuer may from time to time, without the consent of the Holders of Profit Sharing Certificates, create and issue further securities having the same terms and conditions as the Profit Sharing Certificates in all respects (or in all respects except for the first distribution) so as to form a single series with the Profit Sharing Certificates.

## **15. NOTICES**

Without prejudice to the applicable provisions of the Company Code, notices to the Holders of Profit Sharing Certificates will be published in a leading English newspaper in London (which is expected

to be the *Financial Times*) and, so long as the Profit Sharing Certificates are listed on the Luxembourg Stock Exchange and its rules so require, a leading newspaper having general circulation in 40 Luxembourg (which is expected to be the *Luxembourger Wort*). If and as long as the Profit Sharing Certificates are deposited with a settlement system, notices may also be published through such system. Any such notice will be deemed to have been given on the date of first publication.

**16. GOVERNING LAW AND JURISDICTION**

The Profit Sharing Certificates will be governed by Belgian law. Any dispute in connection therewith will be subject to the exclusive jurisdiction of the courts of the registered office of the Issuer.

## DESCRIPTION OF THE SUPPORT AGREEMENT

KBC Holding has made the undertakings described below in a Support Agreement entered into on 19 December 2003 between KBC Holding and the Issuer as supplemented by a first supplemental support agreement entered into on 3 November 2004 and a second supplemental support agreement to be entered into on 12 October 2007.

These undertakings are made for the benefit of the Holders of Existing Securities and Securities from time to time and, subject to permitted amendments, constitute an irrevocable stipulation for their benefit (*stipulation pour autrui/beding ten behoeve van een derde*) which they are entitled to enforce against KBC Holding.

### Dividend Stopper

KBC Holding and the Issuer have respectively undertaken in the Support Agreement that, beginning on the day the Issuer gives a Deferral Notice and continuing until all Deferred Coupons are paid in full, (a) each of the Issuer and KBC Holding (i) will not propose to its shareholders and, to the fullest extent permitted by law, will otherwise act to prevent the declaration or payment of any dividend on its Junior Securities or Parity Securities, and (ii) will not redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition), and (b) KBC Holding will not vote, and will procure that no vote is cast by any of its subsidiaries, in favour of any of the actions of the Issuer described in (a)(i) and (ii) above; *provided that* if less than the full interest amount is paid on the Securities on any Interest Payment Date, the foregoing undertaking will not prevent the distribution of a partial dividend, in the same proportion, on any Set Rate Parity Securities during the period beginning on such Interest Payment Date and ending before the next succeeding Interest Payment Date. These Dividend Stopper provisions will continue to apply, *mutatis mutandis*, after conversion of the Securities into Conversion Upper Tier 2 Instruments.

### Mandatory Coupons

KBC Holding has undertaken in the Support Agreement to contribute or cause to be contributed to the capital of the Issuer or to otherwise make available such funds as may be necessary to permit the Issuer, taking into account the computation methods as provided for under Article 617 of the Belgian Company Code, to pay any Mandatory Coupon due and payable on a Mandatory Coupon Date; *provided that* any such payment will not be due and payable if following such payment, KBC Holding would not be solvent or would be in a situation of cessation of payment (*cessation de paiement/staking van betalen*). Further, no such contribution to the capital of the Issuer will be due and payable if and to the extent that, before or after giving effect to such contribution, a Net Assets Deficiency Event has occurred and is continuing with respect to KBC Holding; *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to KBC Holding, such contributions to the capital of the Issuer will be mandatorily payable on or before any Mandatory Coupon Date that is triggered by payment of a dividend or redemptions, repurchases or other acquisitions in respect of Junior Securities or Parity Securities of KBC Holding.

### Alternative Coupon Payment Method

KBC Holding has undertaken in the Support Agreement, in order that the Issuer is able to pay Deferred Coupons on any Deferred Coupon Satisfaction Date in accordance with the Alternative Coupon Payment Method, to use all reasonable efforts to ensure that each of the Issuer and KBC Holding has sufficient authorised capital for the purpose. Without limiting the generality of the foregoing, (a) at each annual general meeting of KBC Holding, KBC Holding will propose that its shareholders approve resolutions authorising the issuance of such number of KBC Holding Ordinary Shares, and (b) at each annual general meeting of the Issuer, KBC Holding will exercise its voting rights, and if applicable will procure that its subsidiaries exercise their voting rights, in order to approve resolutions authorising the issuance of such number of Issuer Ordinary Shares, in each case as KBC Holding reasonably determines are sufficient to pay the interest scheduled to fall due on the Securities over the next twelve months in accordance with the Alternative Coupon Payment Method, except to the extent that KBC Holding reasonably determines that



there is sufficient authorised capital for such purpose already in existence. Nothing herein, however, will require KBC Holding or the Issuer to acquire any issued and outstanding KBC Holding Ordinary Shares or Issuer Ordinary Shares.

### **Approval of the Profit-Sharing Certificates**

KBC Holding has undertaken in the Support Agreement to exercise its voting rights in the Issuer, and if applicable to procure that its subsidiaries exercise their voting rights, in order to ensure that the terms and conditions of the Profit-Sharing Certificates are approved by the general meeting of shareholders of the Issuer, and that the statutes of the Issuer are amended in accordance therewith, (at the latest) at the next extraordinary shareholders meeting of the Issuer at which the statutes of the Issuer are amended.

### **Status of the Obligations of KBC Holding**

The obligations of KBC Holding under the Support Agreement constitute unsecured subordinated obligations of KBC Holding. In the event of a general concursus creditorum (*concoure des créanciers/samenloop van schuldeisers*) on the entire assets of KBC Holding, the rights of the Holders of Securities will rank behind those of all creditors of KBC Holding, including subordinated creditors (other than those, if any, whose claims are capable of constituting tier 1 regulatory capital of KBC Holding), and their payment will be subject to the condition precedent that all such creditors of KBC Holding will have been paid in full. The rights of the Holders of Securities under the Support Agreement will rank equally with the Parity Securities of KBC Holding and will rank ahead of the Junior Securities of KBC Holding.

### **Amendments**

The Support Agreement may be amended by mutual agreement of KBC Holding and the Issuer to correct a manifest error, without the consent of the Holders of Securities. In addition, KBC Holding and the Issuer may agree to modify any provision of the Support Agreement, but they will not, without the consent of the Holders of Securities granted in accordance with Condition 15(a) (*Meetings of Holders of Securities; Modification – Meetings of Holders of Securities*), agree to any amendment unless it is of a formal, minor or technical nature or it is, in their opinion, not materially prejudicial to the interests of the Holders of Securities.

### **Law and Jurisdiction**

The Support Agreement is governed by Belgian law and provides for the exclusive jurisdiction of the courts of Brussels.

## DESCRIPTION OF THE CONTINGENT GUARANTEE AGREEMENT

KBC Holding has made the undertakings described below in a Contingent Guarantee Agreement entered into on 19 December 2003 between KBC Holding and the Issuer as supplemented by a first supplemental contingent guarantee agreement to be entered into on 3 November 2004 and a second supplemental contingent guarantee agreement to be entered into on 12 October 2007.

These undertakings are made for the benefit of the Holders of Profit-Sharing Certificates from time to time and, subject to permitted amendments, constitute an irrevocable stipulation for their benefit (*stipulation pour autrui/beding ten behoeve van een derde*) which they are entitled to enforce against KBC Holding.

### Dividend Stopper

The Issuer has undertaken in the Contingent Guarantee Agreement that, if a full distribution has not been paid on the Profit-Sharing Certificates on any Distribution Date, then it will not, for a period of twelve months after such Distribution Date, declare or pay any dividend on its Junior Securities or Parity Securities or redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition).

KBC Holding has undertaken in the Contingent Guarantee Agreement that, if a full distribution has not been paid on the Profit-Sharing Certificates on any Distribution Date, then for a period of twelve months after such Distribution Date (a) it (i) will not propose to its shareholders and, to the fullest extent permitted by applicable law, will otherwise act to prevent the declaration or payment of any dividend on its Junior Securities or Parity Securities and (ii) will not redeem, repurchase or otherwise acquire any of its Junior Securities or Parity Securities (other than pursuant to a Permitted Share Acquisition); and (b) it will not vote, and will procure that no vote is cast by any of its subsidiaries, in favour of any of the actions of the Issuer described above.

If a partial distribution is paid on the Profit-Sharing Certificates on any Distribution Date, the above undertakings will not prevent the distribution of a partial dividend, in the same proportion, on any Set Rate Parity Securities during the period beginning on such Distribution Date and ending before the next succeeding Distribution Date.

These Dividend Stopper provisions will continue to apply, *mutatis mutandis*, after conversion of the Profit-Sharing Certificates into Exchange Upper Tier 2 Instruments.

### Mandatory Distributions

KBC Holding has undertaken in the Contingent Guarantee Agreement to pay any Mandatory Distribution if and to the extent that the Issuer has not paid the same. KBC Holding has the option to satisfy this obligation by either (i) making the required payment directly to the Holders of Profit-Sharing Certificates or (ii) making a contribution to the capital or own funds of the Issuer sufficient to permit the Issuer to pay the relevant Mandatory Distribution. No such payment or contribution will be required, however, if and to the extent that, before or after giving effect to such contribution, a Net Assets Deficiency Event has occurred and is continuing with respect to KBC Holding or KBC Holding would not be solvent or would be in a situation of cessation of payment (*cessation de paiement/staking van betaling*); *provided that*, notwithstanding the occurrence of any Net Assets Deficiency Event with respect to KBC Holding, such payment or contribution will be required in connection with any Mandatory Distribution that is triggered by payment of dividends or redemptions, repurchases or other acquisitions in respect of Junior Securities or Parity Securities of KBC Holding.

### Preference Shares

The Issuer and KBC Holding have undertaken in the Contingent Guarantee Agreement not to authorise unilaterally, and not to propose to their shareholders to authorise, the issue of any additional Junior

Securities or Parity Securities unless they are subject to the dividend stopper set out in Condition 5 (*Dividend stopper*) of the Profit-Sharing Certificates.

### **Status of the Obligations of KBC Holding**

The obligations of KBC Holding under the Contingent Guarantee Agreement constitute unsecured subordinated obligations of KBC Holding. In the event of a general concursus creditorum (*concours des créanciers/samenloop van schuldeisers*) on the entire assets of KBC Holding, the rights of the Holders of Profit-Sharing Certificates will rank behind those of all creditors of KBC Holding, including subordinated creditors (other than those, if any, whose claims are capable of constituting tier 1 regulatory capital of KBC Holding), and their payment will be subject to the condition precedent that all such creditors of KBC Holding will have been paid in full. The rights of the Holders of Profit-Sharing Certificates under the Contingent Guarantee Agreement will rank equally with the Parity Securities of KBC Holding and will rank ahead of the Junior Securities of KBC Holding.

### **Amendments**

The Contingent Guarantee Agreement may be amended by mutual agreement of KBC Holding and the Issuer to correct a manifest error, without the consent of the Holders of Profit-Sharing Certificates. In addition, KBC Holding and the Issuer may agree to modify any provision of the Contingent Guarantee Agreement, but they will not, without the consent of either (a) (prior to the issuance of Profit-Sharing Certificates) the Holders of Securities granted in accordance with Condition 15(a) of the Securities (*Meetings of Holders of Securities; Modification – Meetings of Holders of Securities*) or (b) (after the issuance of Profit-Sharing Certificates) the Holders of Profit-Sharing Certificates granted in a general meeting at the same conditions of quorum and majority as those required for modifications to the statutes of the Issuer, agree to any amendment unless it is of a formal, minor or technical nature or it is, in their opinion, not materially prejudicial to the interests of the Holders of Profit-Sharing Certificates.

### **Law and Jurisdiction**

The Contingent Guarantee Agreement is governed by Belgian law and provides for the exclusive jurisdiction of the courts of Brussels.

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will be in the form of the Global Certificate, which will be in bearer form. Consequently, references in the Terms and Conditions of the Securities to “Holder of Securities” are references to the bearer of the Global Certificate which, for so long as the Global Certificate is held by the NBB or its custodian, will be the NBB or its custodian.

The Global Certificate will be deposited on or around the New Issue Date with the NBB as operator of the X/N System or its custodian. Upon receipt of the Global Certificate the NBB will credit KBC Bank NV’s (the “**Belgian Agent**”) securities account, being an Exempt Account in the X/N System with an amount equivalent to the principal amount of the Global Certificate. On the New Issue Date, the Belgian Agent, on behalf of the Issuer, will instruct the NBB to credit Euroclear’s and Clearstream, Luxembourg’s securities account, being an Exempt Account, in the X/N System with an aggregate amount equivalent to the principal amount of the Global Certificate. Following confirmation of payment to the Issuer of the net proceeds for the issue of the Securities, Euroclear and Clearstream, Luxembourg will credit the Securities in the Managers’ securities accounts with Euroclear and Clearstream, Luxembourg. The Managers will credit the holders of beneficial interests by crediting their securities accounts as participants in Euroclear or Clearstream, Luxembourg with the principal amount of the Securities purchased by each of them against payment of the purchase price.

Ownership of beneficial interests in the Global Certificate will be limited to persons who maintain accounts with the X/N System, Euroclear and Clearstream, Luxembourg or persons who hold interests through such persons and which are Eligible Investors holding the Securities in an exempt securities account. See “*Taxation – Belgium*”. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of such interests will be effected only through, records maintained by the X/N System, Euroclear and Clearstream, Luxembourg and in accordance with the applicable procedures of the X/N System, Euroclear and Clearstream, Luxembourg.

Each of the persons shown in the records of the X/N System, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in the Global Certificate (each an “**Accountholder**”) must look solely to the X/N System, Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the bearer of such Global Certificate and in relation to all other rights arising under the Global Certificate. For so long as the Securities are represented by the Global Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Securities and such obligations of the Issuer will be discharged by payment to the bearer of the Global Certificate.

Neither the Issuer, KBC Holding nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to beneficial ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The X/N System, Euroclear and Clearstream, Luxembourg as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Securities will be responsible for establishing and maintaining accounts for their participants and customers having interests in book-entry interests in the Securities. The Belgian Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in the Securities holding through the X/N System, Euroclear and Clearstream, Luxembourg are credited to the X/N System participant, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect of the Securities. Holders of book-entry interests in the Securities may incur fees normally payable in respect of the maintenance and operation of accounts in the X/N System, Euroclear and Clearstream, Luxembourg.

## Exchange for Definitive Bearer Securities

Subject as provided under “*Abolition of bearer securities*”, below Interests in the Global Certificate will be exchangeable in whole, but not in part, for definitive bearer securities (the “**Definitive Bearer Securities**”) in the denomination of £1,000 each at the request of the bearer of the Global Certificate against presentation and surrender of the Global Certificate to the Fiscal Agent only if (A)(i) the Securities become ineligible for clearance and settlement through the X/N System, Euroclear and Clearstream, Luxembourg and a successor depositary is not appointed within 120 days of receiving notice of ineligibility and (ii) the Issuer is not able, after using reasonable efforts, to arrange for clearance and settlement of the Securities through a successor clearing system or (B) if as a result of any amendment to, or change in, the laws or regulations of the Kingdom of Belgium (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation, by a revenue authority or a court or administration, of such laws or regulations which become effective on or after 19 December 2003, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Securities which would not be required were the Securities in definitive bearer form. In the event Definitive Bearer Securities are issued in exchange for the Global Certificate, such Definitive Bearer Securities will be issued in bearer form with interest Coupons attached.

Whenever the Global Certificate is to be exchanged for Definitive Bearer Securities, the Issuer shall procure the prompt delivery (free of charge to the bearer, save for the tax on the physical delivery of bearer securities if applicable (see “*Taxation – Belgium*”) and other applicable taxes) of such Definitive Bearer Securities, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Global Certificate to the bearer of the Global Certificate against the surrender of the Global Certificate at the Specified Office of the Fiscal Agent within 60 days of the bearer requesting such exchange.

If:

- (a) Definitive Bearer Securities have not been delivered by 5.00 p.m. (London time) on the sixtieth day after the bearer has duly requested exchange of the Global Certificate for Definitive Bearer Securities; or
- (b) the Global Certificate (or any part of it) has become due and payable in accordance with the Conditions or the date for redemption of the Securities has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Global Certificate on the due date for payment,

then the Global Certificate (including the obligation to deliver Definitive Bearer Securities) will become void at 5.00 p.m. (London time) on such sixtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Global Certificate will have no further rights thereunder (but without prejudice to the rights which the bearer of the Global Certificate or others may have under a deed of covenant dated 19 December 2003 (the “**Deed of Covenant**”) executed by the Issuer as supplemented by a first supplemental deed of covenant dated 3 November 2004 and a second supplemental deed of covenant dated 12 October 2007 as further amended or supplemented from time to time). Under the Deed of Covenant, persons shown in the records of the X/N System and/or Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Global Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Certificate became void, they had been the holders of Definitive Bearer Securities in an aggregate principal amount equal to the principal amount of Securities they were shown as holding in the records of the X/N System and/or Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Securities as they apply to the Global Certificate. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Certificate will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Certificate at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Securities. On each occasion on which a payment of principal or interest is made in respect of the Global Certificate, the Issuer shall procure that the same is noted in a schedule thereto.

*Payment business day:* Subject as provided in Condition 9(f) (*Payments – Payment on business days*), while all the Securities are represented by the Global Certificate and the Global Certificate is deposited with the NBB or its custodian and cleared through the X/N System, all payments in respect of the Global Certificate will be made on a day on which the X/N System is open. If payment is due on a day on which the X/N System is not open, the holder shall not be entitled to payment of the amount due until the next succeeding date on which the X/N System is open and shall not be entitled to any further interest or other payment in respect of any such delay.

*Notices:* Notwithstanding Condition 17 (*Notices*), while all the Securities are represented by the Global Certificate and the Global Certificate is deposited with the NBB or its custodian and cleared through the X/N System, Euroclear and Clearstream, Luxembourg, notices to Holders of Securities may be given by delivery of the relevant notice to the NBB, Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders of Securities in accordance with Condition 17 (*Notices*) on the date of delivery to the NBB, Euroclear and Clearstream, Luxembourg; *provided, however, that*, so long as the Securities are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

*Redenomination:* If the Securities are redenominated pursuant to Condition 18 (*Redenomination, Renominalisation and Reconventioning*), then following redenomination:

- (a) if Definitive Bearer Securities are required to be issued, they shall be issued in the denominations of euro 0.01, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the Fiscal Agent shall determine and notify to the Holders of the Securities; and
- (b) the amount of interest due in respect of Securities represented by the Global Certificate will be calculated by reference to the aggregate principal amount of such Securities and the amount of such payment shall be rounded down to the nearest euro 0.01.

### **Abolition of bearer securities**

Pursuant to the Belgian law of 14 December 2005 on the abolition of bearer securities, the Issuer will not be allowed to deliver Securities (or any Profit-Sharing Certificates, existing in bearer form before 1 January 2008) in Belgium as from 1 January 2008, other than deliveries to a clearing system, a depository or another institution for the purpose of their immobilisation. Furthermore, Profit-Sharing Certificates may not be issued in bearer form after 1 January 2008, either in Belgium or outside Belgium.



## **USE OF PROCEEDS**

The net proceeds of the issue of the Securities, expected to amount to approximately £146.7 million, including 297 days accrued interest at the rate of 6.202 per cent per annum, but before deduction of the combined management and underwriting commission, will be used by the Issuer (i) to increase the Tier 2 capital of the Issuer, (ii) to increase the Tier 1 capital of the Issuer and (iii) for general corporate purposes.

The estimated total expenses, inclusive of the combined management and underwriting commission, will be approximately £650,000.

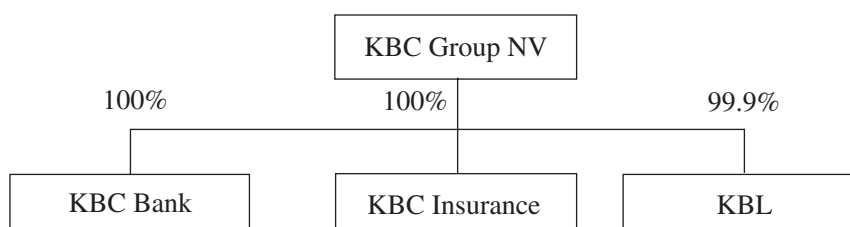
## DESCRIPTION OF THE ISSUER

### 1. Creation and Introduction

KBC Bank NV (“**KBC Bank**”), a wholly-owned subsidiary of KBC Group NV (“**KBC Holding**”, see below), was incorporated in Belgium on 3rd June, 1998 for an indefinite duration in the form of a limited liability company (with number BE-0462.920.226) and operates under the laws of Belgium. KBC Bank’s registered office is at Havenlaan 2, B-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154.

KBC Bank was initially formed through the merger of the banking operations of the Almanij<sup>4</sup> - Kredietbank group and CERA Bank group (“**CERA**”). The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank. KBC Bank is registered as a credit institution with the Belgian Banking, Finance and Insurance Commission (*Commissie voor Bank-, Financie- en Assurantiewezenen*) (the “**CBFA**”).

*Merger of KBC Bank and Insurance Holding Company NV (the parent company of KBC Bank) with Almanij:* On 2nd March, 2005, the extraordinary general shareholder meetings of KBC Bank and Insurance Holding Company NV<sup>5</sup> (which held 100 per cent. of KBC Bank) and Almanij (which held a majority in KBC Bank and Insurance Holding Company NV) approved the restructuring of the Almanij-KBC group through the merger by acquisition of Almanij by KBC Bank and Insurance Holding Company NV. The merged entity has been renamed KBC Group NV. This restructuring, that only affects the shareholdership at the level of KBC Holding, has resulted in a simpler, more streamlined group structure with one single entity (KBC Holding) controlling the underlying companies KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank SA Luxembourgeoise (“**KBL**”) and Gevaert. In 2006, an Extraordinary General Meeting of Shareholders of KBC Holding approved the further simplification of the legal structure of the group, via the merger of Gevaert with KBC Group NV (previously, Gevaert had been a 100% subsidiary of KBC Group NV). The group structure was again simplified by the sale of a number of KBC Asset Management shares previously held by KBC Group NV to (subsidiaries of) KBC Bank, making KBC Bank the majority shareholder in KBC Asset Management (previously, KBC Group NV had been the majority shareholder). As a result of these moves, KBC Group NV now has only three main direct subsidiaries (KBC Bank, KBC Insurance and KBL) instead of five (see diagram).



KBC Holding’s shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange. As at 31st December 2006, there were 363,217,068 ordinary shares of KBC Group in circulation, as well as 2,606,452 Mandatorily Convertible Bonds (“**MCBs**”) 1998-2008 (which will be converted on or before 30th November 2008 into KBC Group shares according to a ratio of one ordinary share for one MCB). On 30 June 2007, these numbers were 354,999,049 (ordinary shares) and 2,594,748 (MCBs), respectively.

As of May 2006, a new management structure was rolled out throughout the KBC Group. This management structure is shown in the diagram and essentially breaks down the group into five business

4 The Almanij Group was incorporated in 1931 as a diversified financial services group whose mission is to realise profitable long-term growth for its shareholders, through its ownership stakes in group companies. As subsidiaries, Almanij held KBC Bank and Insurance Holding company, Kredietbank Luxembourgeoise and Gevaert. It had core shareholders (comprised of Cera, Almancora and the other Committed Shareholders) and a stable shareholder (MRBB) who, at 31st December 2004, jointly owned approximately 70 per cent. of the total outstanding share capital.

5 The KBC Bank and Insurance Holding Company was formed on June 1998, organizing the banking operations of the merged entities (Almanij – Kredietbank Group, CERA Bank and ABB) into KBC Bank, consolidating the insurance operations of the merged entities to form KBC Insurance and creating a holding company for the KBC Group.

units: Belgium, Central & Eastern Europe, Merchant Banking, European Private Banking, and Shared Services & Operations (such as ICT and logistics and ‘product factories’ such as payment systems, asset management, leasing and trade finance). Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the group CEO and group CFRO, constitute the group executive committee. Each business unit has direct responsibility for achieving the objectives set.



## 2. Short presentation of KBC Bank

### *Area of Activity*

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

	<i>(Number of Shares)</i>
<b>Shareholders (as at 31 December 2006)</b>	
KBC Group	385 054 106
KBC Insurance	1
<b>Total</b>	<b>385 054 107</b>
<b>Network (as at 31 December 2006)</b>	
Bank branches in Belgium (KBC Bank and subsidiary CBC Banque)	927
Bank branches in Central and Eastern Europe (subsidiaries ČSOB, K&H Bank and Kredyt Bank; excluding the minority participation in NLB)	874
<b>Long-Term Ratings (as at 30 September 2007)</b>	
Fitch	AA-
Moody's	Aa2
Standard and Poor's	AA-

	<i>31 December 2005</i>	<i>31 December 2006</i>	<i>30 June 2007</i>
	<i>(In Millions of EUR, IFRS)</i>		
<b>Consolidated Balance Sheet Data</b>			
Total assets	274 419	275 738	292 969
Parent shareholders' equity	10 375	10 603	10 957

	<u>FY 2005</u>	<u>FY 2006</u>	<u>6M 2006</u>	<u>6M 2007</u>
	<i>(In Millions of EUR, IFRS)</i>			
<b>Consolidated Profit And Loss Account Data</b>				
Gross income	5 996	7 158	3 807	3 990
Operating expenses	-3 662	-3 872	-1 886	-2 024
Impairment	-34	-169	-55	-82
Net profit, group share	1 677	2 083	1 254	1 374

List of main subsidiaries and associated companies of KBC Bank, as at 31 December 2006

<b>Company</b>	<i>Registered office</i>	<i>Ownership Percentage at KBC Bank Level</i>	<i>Activity</i>
<b>Main fully consolidated subsidiaries</b>			
Antwerpse Diamantbank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
Centea NV	Antwerp – BE	99.56	Credit institution
ČSOB a.s.	Prague – CZ	97.44	Credit institution
Fin-Force NV	Brussels – BE	63.03	Processing financial transactions
IIB Bank Plc	Dublin – IE	100.00	Credit institution
KBC Asset Management NV	Brussels - BE	51.86	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	99.76	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	Issuance of trust preferred securities
KBC Bank Nederland NV	Rotterdam – NL	100.00	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	Clearing
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Shares and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing
KBC Peel Hunt Limited	London – GB	99.99	Stock exchange broker/corporate finance
KBC Private Equity NV (ex-KBC Invest co NV)	Brussels – BE	100.00	Private equity
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	99.96	Credit institution
Kredyt Bank SA	Warsaw – PL	80.00	Credit institution
<b>Main proportionately consolidated subsidiaries</b>			
International Factors NV	Brussels – BE	50.00	Factoring
<b>Main companies accounted for using the equity method</b>			
Nova Ljubljanska banka d.d. (NLB)	Ljubljana – SI	34.00	Credit institution

In the period between 31 December 2006 and 30 June 2007, the main change in the list of (and participation percentages in) main subsidiaries and associated companies was the increase in participation in International Factors from 50% to 100% (and full consolidation as of 2Q 2007).

### 3. Network and market position

#### Bank network in Belgium and Central Eastern Europe (as at 31 December 2006)<sup>1</sup>

	<i>Market share</i>	<i>Customers (in millions)</i>	<i>Branches</i>
Belgium – KBC Bank .....	21%	3.3	927
Czech Republic – ČSOB .....	22%	2.9	234
Slovakia – ČSOB .....	7%	0.2	103
Hungary – K&H Bank .....	10%	0.8	188
Poland – Kredyt Bank .....	4%	0.9	349

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

Excluding the minority stake in NLB in Slovenia, which is seen as a pure financial participation.

#### Network in Belgium

At the end of 2006, KBC Bank had a network of 927 branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The branch network is broken down into 869 retail branches, 33 corporate branches (including the social profit branches) and 25 private banking branches.

The Belgian retail market is also catered for by 708 independent agents working under the umbrella of the retail savings bank, Centea NV, a subsidiary of KBC Bank.

The KBC Group's expansion has given private banking customers the choice of being served by KBC Bank and CBC Banque private banking branches or Puilaetco Dewaay Private Bankers, a subsidiary of Kredietbank Luxembourgioise 'European Private Bankers' group (KBL), a sister company of KBC Bank.

Via these networks, the group caters for approximately 3.3 million customers in Belgium.

As at 31st December, 2006, KBC Bank had (based on its own estimates) a 20 per cent. share of the Belgian deposit market and a 22 per cent. share of the lending market. Over the past few years, KBC Bank has built up a strong position in investment funds, and leads the Belgian market with an estimated share of 34 per cent.

#### Network in Central and Eastern Europe

Over the past few years, KBC Bank has built up an extensive network in a number of countries in Central Eastern Europe. As at 31st December, 2006, this network consisted of 874 branches operated by its ČSOB subsidiary in the Czech Republic and Slovakia, K&H Bank in Hungary and Kredyt Bank in Poland. Moreover, KBC Bank is indirectly present in Slovenia and other ex-Yugoslav Republics via a minority shareholding in Nova Ljubljanska banka (NLB). In the Czech Republic, ČSOB also sells its products through over 3,000 Czech post offices. The new acquisitions (end of 2006 and early 2007) are commented below.

Through this network, KBC Bank caters for roughly 5 million bank customers in the region (excluding the clients of NLB). This customer base, along with the group's nearly three million insurance customers, make KBC Group one of the largest financial groups in Central & Eastern Europe.

As at 31st December, 2006, the estimated market share (the average of the share of the lending market and the deposit market) came to 22 per cent. in the Czech Republic, 7 per cent. in Slovakia, 10 per cent. in Hungary and 4 per cent. in Poland. Given the increasing sophistication of these markets, there has been a shift to some extent from traditional deposits to off-balance-sheet products, such as investment funds. KBC Bank also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 28 per cent. in the Czech Republic, 10 per cent. in Slovakia, 18 per cent. in Hungary and 4 per cent. in Poland).

## **Network in the rest of the world**

Outside Belgium and Central and Eastern Europe, KBC Bank concentrates on merchant banking through a network of KBC Bank representative offices and branches (mainly in Western Europe, Southeast Asia and the US) and a number of subsidiaries.

The main subsidiaries are IIB Bank (an Irish bank that provides financial services to SMEs and corporate customers, and also has a sizeable share of the home loan market), KBC Bank Nederland (which is based in Rotterdam and engages in corporate banking activities, relationship management and providing operational support to the group's business-network customers) and KBC Bank Deutschland (which operates through a limited branch network in the banking market for local mid-sized companies, banks and network customers doing business in Germany). The subsidiaries engaging in more specialised activities are mentioned below.

Following the rationalisation of the past few years, no substantial changes were made to this network in 2006 (only the office in Manila was closed). It was also decided to open, in 2007, a branch in Spain. If deemed necessary, KBC Bank may open new branches in future, in order to improve market coverage.

### **Specialised activities**

KBC Bank is active in a large number of markets and activities, ranging from the plain vanilla deposit, credit and asset management businesses, to specialised activities (which are conducted out of specialised departments at head office or specialised subsidiaries) such as:

- acquisition finance (the financing of buyouts, whether by management or shareholders, of entire companies or company assets, with the repayment being derived primarily from future cash flows)
- payments services
- dealing room activities (via a number of dealing rooms in Western and Central & Eastern Europe, the United States and the Far East)
- brokerage and corporate finance (mainly via KBC Securities and KBC Peel Hunt)
- clearing (via KBC Clearing)
- foreign trade finance
- diamond finance (via Antwerpse Diamantbank)
- structured finance (structured trade finance and project finance, managed via KBC Finance in Ireland)
- International cash management
- specialised market activities of KBC Financial Products (including trading in equities and equity derivatives, credit derivatives, convertible bonds, CDO business etc.)
- leasing (mainly finance leasing, real estate leasing, renting, full-service car leasing and European vendor finance via KBC Lease group)
- private equity business (via KBC Private Equity, which finances buy-outs and provides mid-caps with growth capital)
- real estate services (including finance for property developers and real estate investors, real estate securitisation, real estate investment and project development services)

As regards asset management, due to a transfer of some shares of KBC Asset Management from KBC Group NV to subsidiaries KBC Bank, the latter became the majority holder in KBC Asset Management and as a consequence, KBC Asset Management's results are now consolidated into KBC Bank's results. The services offered by KBC Asset Management include individual asset management, institutional asset management (pension funds, social security funds, corporate liquidity management), as well as collective



asset management, backed by research, product development, advisory management and marketing support. KBC AM has a subsidiary in Ireland, KBC Asset Management Limited, and also operates in other countries, assisting, for example, KBC Bank's Central & Eastern European subsidiaries with the launch of own or KBC Bank investment funds. In Belgium, asset management products are sold through KBC Bank, KBC Insurance, CBC Banque and Centea networks. In recent years, KBC Bank's share of the Belgian market in investment funds has been over 30 per cent. Through its banking and insurance subsidiaries, the KBC Group has also built up a significant position in asset management in Central and Eastern Europe (see above).

#### **4. Significant acquisitions/disinvestments in 2006 and January-September 2007**

2006:

- acquisition of the 40% minority share in the Hungarian K&H Bank; through this deal, KBC increased its stake in K&H Bank from 59.5 per cent. to 99.96 per cent.
- sale of 5.5 per cent in the Polish Kredyt Bank, in compliance with the request of the National Bank of Poland to restore the free float of Kredyt Bank to 20 per cent ; the KBC Group now holds 80 per cent. of Kredyt Bank.
- Reassessment of KBC Bank's minority stake in NLB (Slovenia): this is now seen as a pure financial participation.
- Acquisition of the 7.5 per cent. minority stake of EBRD in the Czech bank CSOB, by which it reached 97.4% in that bank as at end 2006. In 2007, KBC launched a bid for the remaining shares in CSOB and now fully own this bank.
- Sale of the minority stakes in the Belgian Bank Card Company (21.55 per cent.) and Banksys (20.55 per cent.).

2007 (up to and including September):

- Acquisition of a 99.3% stake in the Romanian leasing company Romstal Leasing and full ownership of the Romanian broker Swiss Capital.
- Acquisition of a 100% stake in the Hungarian online retail broker Equitas
- Acquisition of a 95% stake in the Russian Absolut Bank
- Acquisition of majority participations in three Serbian brokerage companies (Senzal, Hipobroker and Bastion)
- Acquisition of a 51% stake in Baltic Investment Company, a corporate finance specialist in Latvia.
- Agreement on the purchase of a majority stake in the Bulgarian bank, EIB (Economic and Investment Bank).
- Sale of the Italian Banca KBL Fumagalli Soldan (subsidiary of KBL).
- Take-over of the 50% stake of ING Belgium in International Factors (the second most important factoring company in Belgium); KBC now fully owns this company.
- Acquisition (by KBC Asset Management) of a 51% stake in the asset manager Liontamer (Australia and New Zealand).

In general, it will remain KBC Bank's policy to continue to look for expansion possibilities that fit into its strategy, especially in Central and Eastern Europe. This can be done either by add-on acquisitions and branch network increases in the countries KBC is already present in (for instance, in the next few years, some 250-300 new branches will be opened in the Central and Eastern European region), or by acquisitions in other countries of the region.

In meeting its obligations as described above, it is anticipated that KBC Bank will utilise the highly diversified funding base at its disposal. Its broad customer base (both in Belgium and in Central and Eastern Europe) provides it with a stable source of retail funding and its international name allows it to attract wholesale funding from a diversified group of counterparties. KBC Bank regularly reviews its structural funding needs, and long-term working funds are raised in accordance with those anticipated needs.

## 5. Cross-selling

The KBC Group considers itself to be an integrated bancassurer and illustrated this clearly through the new management structure it introduced in 2006. Certain shared and support services are since then organised at group level, serving the entire group, and not just the bank or insurance businesses separately. The KBC Group is divided up into five divisions (the so-called ‘business units’), each combining both banking and insurance activities. It is KBC’s explicit aim to continue to actively encourage the cross-selling of bank and insurance products within the group’s various business units.

The success of the KBC Group’s bancassurance concept can be measured by various factors, including the number of customers the bank and insurer share, as well as by sales of insurance products via the bank distribution channels.

The success of the KBC Group’s bancassurance model is in part due to the co-operation that exists between the bank branches of KBC Bank and the insurance agents of KBC Insurance, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of agents, the call centre and the head office departments at KBC Insurance.

KBC’s bancassurance concept has over the past few years been exported to KBC’s Central and Eastern European entities. In order to be able to do so, the KBC Group has built up a second “home” market in Central and Eastern Europe in insurance too (via KBC Insurance). The group now has an insurance business in each Central and Eastern European country in which it also has a major banking presence. In the Czech Republic, the KBC Group’s insurer is ČSOB Pojišťovna; in Slovakia, ČSOB Poist’ovňa; in Poland, WARTA; in Slovenia, NLB Vita (a joint venture with NLB); and in Hungary, K&H Insurance (the merger of K&H Life and Argosz). In January 2007, an agreement was reached to acquire a majority share in the Bulgarian insurance company DZI Insurance.

## 6. E-banking

The brick-and-mortar networks in Belgium and Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephones and the Internet.

As at 31 December, 2006, the branch network in Belgium was supplemented by 1,240 automated “KBC Matic” teller machines that allow customers to make fund transfers and receive account statements. KBC Bank also has a “KBC-Telecenter”, which allows customers to effect the most current transactions, including securities trading, by phone. Customers who want to do their banking business directly by phone are offered “KBC-Phone” or “CBC-Phone” facilities. On the KBC web site visitors can find a variety of information and can carry out loan, investment and insurance-related simulations. PC and Internet banking can be done via “KBC-Online”, “CBC Online” and “Centea Online”.

These alternative channels have proved popular. For example, in Belgium at the end of 2006, there were roughly 510,000 customers actively using the online systems, a 16 per cent. increase within one year.

<b>E-banking indicators – Belgium</b>	<i>31 December 2005</i>	<i>31 December 2006</i>
Number of KBC- and CBC-Matic ATMs	1,204	1,240
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	2.7 million	3.2 million
Active subscribers to KBC’s Internet and PC banking facilities	440,000	510,000
Active subscribers to KBC’s telephone banking services	47,000	42,000

KBC Bank also offers various electronic services to its business customers, including KBC-Online for Business, KBC-Flexims (an internet channel that customers can use to apply to KBC Bank for documentary credit, documentary collections and international bank guarantees or to modify such facilities), and more recently, WISE, which enables companies to remotely initiate and approve local and cross-border payments and direct debits.

## **7. Private banking strategy in Belgium**

With the expansion of the KBC Group, and in particular with the inclusion of KBL, the private banking strategy has been updated. In Belgium, this has led to a dual-brand strategy being adopted.

KBC Bank and CBC Banque operate a private banking network of 25 specialised branches that offer high-net-worth customers a broad range of private banking services, along with the expertise of a large bank. Via these branches, KBC Bank provides both advisory and discretionary portfolio management services, tailored to clients' individual needs and objectives. The needs of private banking clients are catered for on a privileged basis and they are offered services reserved specifically for them, such as exclusive investment funds and bond issues, funds of other asset managers and exclusive management solutions. In Central and Eastern Europe KBC Bank is developing private banking activities based on this model.

In addition, since the new KBC Group was formed, Belgian clients have been able to opt for the private banking service provided by Puilaetco Dewaay Private Bankers, a subsidiary of the KBL group.

## **8. Competition**

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

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

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

In Belgium, KBC Bank is perceived as belonging to the top-3 financial institutions. For certain products or activities, KBC Bank estimates it has a leading position (e.g. investment funds). The main competitors in Belgium are Fortis, Dexia and ING, though for certain products, services or markets, other financial institutions may also be important competitors.

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

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

## **9. Risk Management**

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

A description of risk management in the KBC Group (which, over and above KBC Bank, also includes KBC Insurance and KBL EPB) is available in the 2006 Annual Report of KBC Holding. Below, only a selection of this information is provided – for a full picture, please refer to the annual report of KBC Holding), which is available at the registered office of KBC Bank.

## Risk governance

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

- Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by a borrower, guarantor, counterparty to an interprofessional transaction or issuer of a debt instrument, due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as 'country risk'.
- ALM entails managing the macroeconomic risks attendant on balance-sheet and off-balance-sheet transactions in the banking book (i.e. all activities not belonging to the trading book, including the forex and securities trading activities of the bank and the specialised subsidiaries).
- Market (or trading) risk is the risk of loss due to market movements causing a drop in the value of the interest rate, currency, equity and credit market positions held by the bank's dealing rooms either at KBC Bank or at the specialised subsidiaries KBC Financial Products, KBC Securities and KBC Peel Hunt.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## Credit risk management

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

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

	31 December 2005	31 December 2006	30 June 2007
<b>Loan portfolio, KBC Bank</b>			
<b>Total loan portfolio (in billions of EUR)</b>			
Amount granted	168.0	182.0	192.0
Amount outstanding	121.3	135.3	147.9
<b>Loan portfolio breakdown by division (as a % of the portfolio of credit granted)</b>			
Belgium (retail)	30%	30%	29%
Central Eastern Europe	16%	19%	19%
Merchant banking (excl. Central Eastern Europe)	54%	52%	52%
Total	100%	100%	100%
<b>Loan portfolio breakdown by sector (selected sectors as a % of the portfolio of credit granted)</b>			
Real estate	5%	6%	6%
Electricity	3%	3%	3%
Aviation	0.6%	0.5%	0.6%
Automobile industry	3%	3%	3%
<b>Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)</b>			
Specific impairment	2 420	1 933	1 934
Portfolio-based impairment	245	222	228
Loan loss ratio (net changes in individual and portfolio-based impairment for credit risks / average outstanding loan portfolio)	0.03%	0.14%	0.12%

**Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)**

Amount outstanding	2 755	2 157	2 190
Specific impairment for non-performing loans	1 987	1 488	1 514
Non-performing ratio (amount outstanding of NP loans / total outstanding loan portfolio)	2.3%	1.6%	1.5%
Cover ratio of NP loans by specific impairment for NP loans	72%	69%	69%
Cover ratio of NP loans by specific and portfolio-based impairment for performing and NP loans	97%	100%	99%

The table also provides information on impaired and non-performing loans (based on IFRS data). On KBC Bank's internal Probability of Default (PD) scale, impaired loans coincide with the worst loan classes, i.e. loans to clients with a PD of 10, 11 and 12. In respect of these impaired loans, specific loan impairments are recorded under IFRS. In addition, a portfolio-based impairment is recognised (a formula based on PD classes 8 and 9). The related loan loss ratio (note: negative figures indicate a net retrieval of loan loss impairments) is also given in the table.

Non-performing loans are impaired loans (and corporate and bank bonds in the investment portfolio) for which principal repayments or interest payments are more than ninety days overdue. This coincides with loans to clients with PD classes 11 and 12. The table provides information on non-performing loans, including the 'non-performing ratio' and the 'cover ratio'.

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk:

- short-term commercial exposure: trade-related commitments, where the term does not surpass 2 years and the counterparty is a bank (such as confirmed or guaranteed documentary credits and documented pre-export financing and post-import financing). As at 31st December, 2006, this exposure (100 per cent. weighted, excluding the portion covered by the Belgian Export Credit Agency, NDD) amounted to 1.3 billion euros (31st December 2005: 1.1 billion euros).
- counterparty risk of inter-professional transactions: refers to placements (money market transactions) and the pre-settlement risk of derivatives (forex products, swaps and options). As at 31st December 2006, this exposure (weighted as positive present value, plus add-on – more explanation in the annual report of KBC Group) came to 23.2 billion euros (31st December 2005: 19.5 billion euros).
- trading book securities - issuer risk: refers to the potential loss on default by the issuer of the trading securities. As at 31st December 2006, the trading issuer risk came to approximately 2.3 billion euros (31 December 2006: 3.1 billion euros).
- government bonds in the investment portfolio: the exposure related to government bonds amounted to 37 billion euros as at 31st December 2006 (39 billion euros as at 31 December 2005) and was accounted for mainly by bonds on EU states (particularly Belgium)).

KBC Bank's methodology for calculating country risk is explained in the 2006 Annual Report of KBC Holding. The table below shows the result of this calculation for 31st December, 2006. This calculation encompasses more than the loan portfolio, as it also includes (the country risk involved in) inter-professional transactions and short-term commercial transactions. However, transactions in local currency and the whole euro zone are excluded from the calculation, as they do not entail any transfer risk.

**Country risk at 31st December 2006 (excluding local-currency transactions) of KBC Bank (in millions of EUR)**

	<i>Total</i>	<i>Western Europe (excl. euro zone)</i>	<i>Central Eastern Europe</i>	<i>Asia</i>	<i>North America</i>	<i>Middle East</i>	<i>Latin America</i>	<i>Africa</i>	<i>Oceania</i>	<i>Inter- national institu- tions</i>
<b>Breakdown by region</b>										
IFC 'B' loans	25	0	0	6	0	1	14	4	0	0
Performance risks	1,031	23	591	28	20	33	159	168	9	0
Other loans	15,138	3,114	7,236	2,270	1,731	456	104	125	70	31
Bonds and shares	4,839	1,427	718	507	1,772	118	49	0	64	184
Interprofessional transactions (weighted)	6,321	4,124	918	664	304	97	161	28	6	19
MLT export finance	53	0	26	3	0	12	2	8	0	1
Short-term commercial transactions	1,225	52	150	429	10	490	23	46	2	25
<b>Total</b>	<b>28,633</b>	<b>8,740</b>	<b>9,639</b>	<b>3,907</b>	<b>3,838</b>	<b>1,207</b>	<b>512</b>	<b>379</b>	<b>151</b>	<b>261</b>
<b>Breakdown by remaining tenor</b>										
Not more than 1 year	11 902	5,076	2,568	2,322	906	519	265	127	47	73
More than 1 year	16 731	3,664	7,071	1,584	2,933	688	247	252	104	188
<b>Total</b>	<b>28,633</b>	<b>8,740</b>	<b>9,639</b>	<b>3,907</b>	<b>3,838</b>	<b>1,207</b>	<b>512</b>	<b>379</b>	<b>151</b>	<b>261</b>

In relation to the so-called "US sub-prime lending", KBC Bank has no direct sub-prime lending exposure and its relevant indirect sub-prime exposure consists of investments in collateralised debt obligations which carry some asset-backed securities underlying, as well as of a liquidity support line extended to Atomium, an off-balance sheet asset-backed commercial paper programme conduit managed by KBC Bank. The credit risk related to this exposure is limited due to the high credit ratings of the tranches held, which was confirmed in a stress test based on worst case assumptions as published by Merrill Lynch in a report dated 20 July 2007 which revealed that the expected amount of credit downgrading to 'default' was 9 million euros (based on 30 June 2007 situation; further details may be found in KBC Holding's Quarterly Report 2Q 2007).

#### **Asset/liability management**

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



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

Average, 1Q 2005	55
Average, 2Q 2005	51
Average, 3Q 2005	55
Average, 4Q 2005	74
31 December 2005	74
Maximum in 2005	81
Minimum in 2005	49
Average, 1Q 2006	75
Average, 2Q 2006	87
Average, 3Q 2006	89
Average, 4Q 2006	74
31 December 2006	67
Maximum in 2006	94
Minimum in 2006	65
Average, 1Q 2007	70
Average, 2Q 2007	54
30 June 2007	42
Maximum in 1H 2007	74
Minimum in 1H 2007	42

**Market risk management**

As already stated before, KBC Bank has a number of money and capital market dealing rooms in Western and Central and Eastern Europe, the United States and the Far East, though the dealing room in Brussels accounts for the majority of the limits and risks. The dealing rooms abroad focus primarily on providing customer service in money and capital market products, funding local bank activities and engaging in limited trading for own account in local niches. All of the dealing rooms focus on trading in interest rate instruments as a result of activities on the forex markets traditionally being limited.

KBC Bank through its specialised subsidiaries KBC Securities, KBC Peel Hunt and KBC Financial Products engages in trading in equities and their derivatives, such as options and convertible bonds. Through KBC Financial Products, the bank is also involved in trading in credit derivatives and in managing and providing services in relation to hedge funds and launching and managing other instruments, including Collateralised Debt Obligations (CDOs). Neither the bank nor its subsidiaries are active in the commodities markets.

The table below shows the Value-at-Risk (VAR; 99 per cent. confidence interval, 1-day holding period) for KBC Bank's dealing rooms on the money and capital markets, based on historical simulation. KBC Securities, and KBC Peel Hunt are not included in the table. The average VAR of KBC Securities was 0.3 million euros in 2006; the average VAR of Peel Hunt was 0.5 million euros. Figures for the first half of 2007 were 0.6 million euros and 0.8 million euros, respectively. The table includes KBC Financial Product's VAR as of the fourth quarter of 2005.

<b>Market risk VAR (1-day holding period, in millions of EUR)</b>	<i>KBC Bank</i>	<i>KBC Financial Products</i>
Average, 1Q 2005	4	*
Average, 2Q 2005	4	*
Average, 3Q 2005	4	*
Average, 4Q 2005	4	8
31- December 2005	3	6
Maximum in 2005	10	—
Minimum in 2005	2	—
Average, 1Q 2006	4	20
Average, 2Q 2006	4	12
Average, 3Q 2006	3	8
Average, 4Q 2006	3	7
31 December 2006	3	5
Maximum in 2006	6	20
Minimum in 2006	2	4
Average, 1Q 2007	4	10
Average, 2Q 2007	4	10
30 June 2007	4	9
Maximum in 1H 2007	6	15
Minimum in 1H 2007	3	4

\* Up to and including the third quarter of the year, KBC FP's risk exposure was measured using the scenario analysis technique.

## 10. Staff

As at 31st December 2006, KBC Bank had, on a consolidated basis, about 36,000 employees (in full-time equivalents (FTE)), the majority of which were located in Belgium (especially KBC Bank NV) and Central Eastern Europe (especially CSOB in the Czech and Slovak republics, Kredyt bank in Poland and K&H Bank in Hungary).

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

## 11. Banking supervision and regulation

### Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed, comprehensive regulation in Belgium, supervised by the Belgian Banking, Finance and Insurance Commission (*Commissie voor Bank-, Financier- en Assurantiewezen*) ("CBFA"), an autonomous public agency, acting as the supervisory authority.

European Union ("EU") directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realization of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonization of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

## Supervision and regulation in Belgium

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications (“**Banking Act**”). The Banking Act, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (hereafter: “**Capital Requirements Directive**”) and by EC Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (hereafter: “**Capital Adequacy Directive**”). It sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the CBFA. The main objective of the Banking Act is to protect public savings and the stability of the Belgian banking system in general.

### Supervision of credit institutions

All Belgian credit institutions must obtain a license from the CBFA before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfill numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 5% or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of “fit and proper” character to ensure proper and prudent management of the credit institution. The CBFA therefore requires the disclosure of the identity and participation of any shareholder with a 5% or greater capital or voting interest. If the CBFA considers that the participation of a shareholder in a credit institution jeopardises its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the CBFA is required each time a person intends to acquire shares in a credit institution, resulting in the direct or indirect ownership of 5% of the capital or voting rights or a multiple thereof. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the CBFA thereof one month in advance. The Belgian credit institution itself is obliged to notify the CBFA of any such transfer when it becomes aware thereof.

The Banking Act requires credit institutions to provide detailed periodic financial information to the CBFA and to the National Bank of Belgium (“**NBB**”). The CBFA also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The CBFA, in consultation with the NBB, and subject to the approval of the Ministers of Finance and of Economic Affairs, sets the minimum capital adequacy ratios applicable to credit institutions. The CBFA may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions.

Pursuant to the Banking Act, the CBFA may, in order to exercise its prudential supervision, require that all information with respect to the organization, the functioning, the position and the transactions of a credit institution be provided to it. The CBFA may supplement these communications by on-site inspections. The CBFA also exercises its comprehensive supervision of credit institutions through Statutory Auditors who co-operate with the CBFA in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the CBFA.

Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls and in that respect co-operates closely with the CBFA. As the lender of last resort to credit institutions, the NBB is empowered to make recommendations, which it may eventually render compulsory, to banks and other financial institutions. It is also empowered to enforce compliance with standards for balance sheet ratios. The NBB may require banks to make special deposits with it and to maintain set proportions of government paper holdings. It may impose ceilings on credit facilities and on interest rates payable on certain liabilities.

If the CBFA finds that a credit institution is not operating in accordance with the provisions of the Banking Act, that its management policy or its financial position is likely to prevent it from honouring its commitments or that it does not provide sufficient guarantees for its solvency, liquidity or profitability, or that its management structure, administrative and accounting procedures or internal control systems present

serious deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the CBFA has the power to appoint a special commissioner to replace management, to suspend or prohibit all or part of its activities, to order the disposal of all or part of its shareholdings, and finally, to revoke the license of the credit institution.

### **Bank governance**

Belgian law and regulatory practices make a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general policy, which is entrusted to the Board of Directors. In order to ensure that such a distinction is maintained, Belgian regulatory practices require a credit institution and its principal shareholders to underwrite "**internal governance rules**" in order to ensure the autonomy of the banking function and the proper governance of the credit institution. The rules also require the principal shareholders of a credit institution to contribute to the institution's autonomy and stability.

### **Solvency supervision**

Capital requirements and capital adequacy ratios are provided for in the CBFA's Regulation on own funds of 17 October 2006 as approved by Ministerial Decree of 27 December 2006 (hereafter: "**the 2006 Decree on own funds**"), transposing the Basel II related provisions of the Capital Requirements Directive and the Capital Adequacy Directive. The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements, and is further limited by the general provisions of Belgian company law.

The 2006 Decree on own funds requires that the solvency of Belgian credit institutions be measured by a ratio that serves as the basis for the calculation of the minimum required capital. This capital requirement is principally determined by the degree of credit risk that is inherent in each item of the balance sheet and in each off-balance-sheet item. Each bank subject to the 2006 Decree on own funds must maintain a capital adequacy ratio (the "CAD ratio") of total capital (Tier I and Tier II) to risk-weighted assets, of no less than 8%. The CAD ratio also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. The CAD ratio may increase to cover temporary large exposures that exceed the exposure limit described below.

Solvency is also measured by the gearing ratio, which compares shareholders' equity to debt to third parties, as defined in applicable regulations. The 2006 Decree on own funds also stipulates that in no event may the total capital of credit institutions be less than total fixed assets.

### **Large exposure supervision**

Belgian regulations also ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25% of the total capital and the total amount of concentrated risks (single counterparty exposures larger than 10% of total capital) to 800% of total capital. Belgian regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

### **Equity investments**

Belgian credit institutions may make equity investments in commercial and industrial companies. However, such investments (of 10% or more) may not exceed: (i) 15% of the shareholders' equity of the credit institution on a per investment basis, or (ii) 45% of the shareholders' equity of the credit institution in the aggregate.

## Money laundering

Belgium has implemented EU Directive 91/308 of 10 June 1991 on the prevention of the use of the financial system for the purpose of money-laundering (amended by EU Directive 97/2001 of 4 December 2001) in an Act of 11 January 1993, as amended (amongst others, by the Act of 12 January 2004). This legislation constitutes a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms, and employee training requirements on various categories of institutions and professionals, including credit and financial institutions. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. The unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The CBFA has issued guidance to credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraph 1, 2 3 and 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of five years and/or a penalty of a minimum of 26 euros and a maximum of 100.000 euros (to be increased with the additional penalty”, or – in other words – to be multiplied by 5).

## Consolidated supervision

KBC Bank is subject to consolidated supervision on the basis of the consolidated financial situation of the KBC Group, which covers solvency and large exposure as described above, pursuant to Article 49, § 4 of the Banking Act.

## KBC Asset Management

As from June 2005, the status of KBC Asset Management has been changed from ‘investment firm’ to a ‘management company of undertakings for collective investment in transferable securities (UCITS)’ (hereafter: “UCITS-management company”). Its activities are, *inter alia*, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the CBFA.

The UCITS-management company regime in Belgium is governed by the ‘Law on certain forms of collective management of investment portfolio’s’ of 20 July 2004 (“Act of 20 July 2004”). The Act of 20 July 2004 implements European Directive 2001/107/EC of 21 January 2002 (...) relating to UCITS with a view to regulating management companies and simplified prospectuses. This Act also sets forth the conditions under which UCITS-management companies may operate in Belgium and defines the regulatory and supervisory powers of the CBFA.

The regulatory framework concerning supervision on UCITS-management companies is for most part similar to the regulation applicable to investment firms. The Act of 20 July 2004 contains, *inter alia*, the following principles:

- certain minimum paid-up capital requirements, and rules relating to changes affecting capital structure;
- obligation to carry out their activities in the interests of their clients or of the UCITS that they manage (e.g.: creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the CBFA;
- subject to the same supervision of the CBFA and the same administrative sanctions imposed by the CBFA as mentioned above;
- subject to the supervision of Statutory Auditors.

## 12. Litigation

This section refers to material litigation to which KBC Bank (or certain individuals in their capacity as current or former employees or officers of one of these companies) or any of its companies are a party. Besides the specific matters mentioned below, the KBC Bank or any of its companies is involved in a number of legal claims and procedures that have arisen in the ordinary course of their business. Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, management does not believe that the liabilities arising from these claims will adversely affect KBC Bank's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

### *Judicial inquiries and criminal proceedings*

An inquiry was instituted in mid-1996 by the Belgian judicial authorities relating to the alleged cooperation by (former) directors, managers or members of staff of KBC Bank NV and Kredietbank SA Luxembourgeoise ("**KBL**") in tax evasion committed by customers of KBC Bank and KBL. The investigation was based on confidential information believed to have been stolen by former KBL employees who had been dismissed in 1994 for embezzlement. This inquiry ended in October 2000 and resulted in eight (former) directors, managers and members of staff of KBL being placed under suspicion. Being placed under suspicion is certainly not a conviction, but rather the act of an investigating magistrate that gives the persons placed under suspicion full rights to mount a defence and to gain access to the criminal file prepared against them by the magistrate. KBC believes these allegations to be untrue. The individuals concerned deny the allegations levelled against them and will refute them in court.

The file is now pending before the Brussels Council Chamber (Chambre du Conseil) which has to decide whether or not there are sufficient charges against the accused persons to go to trial. The Council Chamber will have to decide whether the investigations conducted by the investigation magistrate were lawful, an issue specifically disputed by the accused.

Another inquiry was started in mid-1995 by the Belgian judicial authorities relating to transactions in Italian bonds involving the foreign tax credit (FBB or QFIE) in 1988 and 1989. In June 2002, the investigating magistrate placed nine (former) directors, managers and members of staff of KBC Bank under suspicion. KBC Bank is firmly convinced that the actions of the directors and members of staff were lawful in every respect and that the legality of these transactions will be demonstrated in court.

In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, came to light at K&H Equities in Hungary. Many clients suffered substantial losses in their portfolio as a result of unauthorized speculation and the misappropriation of funds. Orders and portfolio statements of the clients were forged. A criminal investigation is currently ongoing. Some of the claims have been settled either by agreement or by arbitration awards. Provisions have been set aside at K&H Equities. In spite of the forgery most of the arbitration awards consider the portfolio statements to show the clients' true balances. In more recent awards, the Arbitration Court also accepted some evidence on the account histories of the claimants, which resulted in lower amounts being awarded than originally claimed by the clients.

In July 2006 the KBC Group was placed under suspicion by an investigating magistrate in Brussels in an alleged case of money-laundering. It is an isolated case, where four mortgage loans were granted by KBC Bank over a five-year period to one customer to buy and renovate three investment properties and build apartments. The bank had followed its measures and procedures to combat money-laundering and fraud. The bank will fully cooperate with the judicial authorities and will establish its innocence when the case is sent to a Council Chamber that will decide whether or not to pursue the case in court.

In December 2006, Centea and one of its independent bank agents were summoned before the criminal court in Brussels charged with forgery, the use of forged documents and fraud. This litigation stems from a mistake made at the time an account was opened for new clients who were granted a mortgage loan. Money repaid on this loan was credited to the account of another client. This led to arrears and finally to the termination of the mortgage. The borrowers lodged a complaint with the investigating magistrate. Once the real cause of the problems was detected, Centea NV made the necessary adjustments to the mortgage loan



and restored it as if there had never been any arrears or termination. An amicable settlement has been reached with the complainants; consequently they waived their claim before the court. The procedure has been postponed until 14th September, 2007. Centea is confident that it will be acquitted by the court since there was never any malicious intent.

In June 2007, the KBC Group was placed under suspicion by an investigating magistrate in Brussels in a case of alleged fraud by a customer, who is active in the real estate sector. This matter concerns the financing by KBC Bank of an equity transaction of a real estate company. The magistrate suspects this transaction of being fraudulent and also considers tax evasion while there was an intermediary involved, who would have received commissions illegally. Normal bank procedure was followed for this transaction, and KBC made the credit amount available to a notary-public by means of a normal, routine bank cheque. There has never been any relationship between KBC and the suspected intermediary. KBC requested access to the relevant judicial dossier and will possibly ask for additional investigations to be carried out. KBC will accordingly be able to employ all legal remedies available in order to establish its innocence. KBC is convinced that both it and its employees have always complied with all legal and regulatory requirements in this case.

### ***Other litigation***

On 19 June 2000, ČSOB concluded an “Agreement on Sale of Enterprise” with another Czech bank, IPB, which had been placed under forced administration on 16 June 2000. This agreement was approved by the Czech National Bank (“CNB”). In connection with the acquisition by ČSOB of the Enterprise of IPB (“**IPB Enterprise**”), the Czech Ministry of Finance (acting on behalf of the Czech Republic) entered into an agreement with and provided a State guarantee to, ČSOB, and the CNB also entered into an indemnity agreement with, ČSOB. The purpose of these two agreements is, *inter alia*, to ensure a zero net asset value and to protect ČSOB against (i) losses existing as at the date of the sale of the IPB Enterprise as revealed by extraordinary audits of the IPB Enterprise carried out after the closing of the acquisition of the IPB Enterprise by ČSOB and (ii) damages incurred by ČSOB as a result of the acquisition of the IPB Enterprise (“**State Guarantees**”).

ČSOB is party (claimant/plaintiff or defendant) to a number of civil and criminal actions that were triggered by this acquisition. These actions relate to alleged off-record assets and legal actions of former IPB management, various attempts to contest the take-over of IPB Enterprise by ČSOB, the rescue and restructuring of IPB Enterprise and the state aid provided in connection with the rescue and restructuring of IPB Enterprise.

In this respect, Nomura Principal Investment Plc (“**Nomura**”) has filed a complaint against ČSOB and KBC Bank for unfair competition. Nomura alleges that (i) ČSOB and KBC Bank (with a view to securing the market position of ČSOB and redirecting state aid from IPB) acted in bad faith and attempted to influence the Czech government and the CNB to ensure that IPB did not receive state aid or any other type of rescue package and (ii) the IPB enterprise was not sold to an investor in a transparent tender procedure. Nomura demands, *inter alia*, that the defendants be jointly obliged to pay Nomura 31.5 billion CZK by way of compensation, and to make good the alleged material detriment suffered by Nomura due to the conduct of the two defendants. The case is pending before a Czech court. In March 2006, an arbitration award was issued in the arbitral proceedings between Nomura group and the Czech Republic, which, *inter alia*, acknowledged that the state had legally put IPB under forced administration and sold the IPB enterprise to ČSOB.

Nomura is also challenging the clearance given by the European Commission in 2004 regarding the validity of the state aid provided by the Czech government to IPB (and consequently to ČSOB) before the European Court of First Instance.

At the end of 2006, it was publicly announced that the Czech Republic had concluded a settlement agreement with Nomura. It has been the intention of the parties to the settlement agreement that this agreement would be extended to ČSOB and KBC Bank as well, but the parties concerned have not been able to reach a negotiated settlement yet.

At the end of February 2007, the CNB informed ČSOB that it wants ČSOB to set aside provisions against the ‘realistic possibility’ that ČSOB will lose several disputes in IPB-related claims. ČSOB has already responded that these issues are fully covered by the state guarantees and that creating provisions would be illogical and in contradiction with international accounting standards.

On 13 June 2007, ČSOB filed a Request for Arbitration against the Czech Republic for CZK 1,655,588,264.95 (EUR 58,540,655.03), plus interest, due to the failure of the Czech Republic to reimburse ČSOB in connection with the J. Ring case. Article 2.5 of the Agreement and State Guarantee provides that, in the event ČSOB has to pay back to the CKA (a state owned financial institution facilitating the restructuring of the Czech economy by purchasing bad loans) the consideration for any item of the IPB enterprise returned by the CKA to ČSOB, the Czech Republic has to reimburse ČSOB for the full amount in order to ensure a zero net asset value. As the Czech Republic fails to pay the amount of the consideration in the J. Ring case to ČSOB, although the J. Ring items in question have been transferred by CKA to ČSOB on the basis of an arbitral award, ČSOB has had to start the aforementioned arbitration proceedings.

In its answer in which it presented its defence in this arbitration proceeding, the Czech Republic asserted a counter-claim of CZK 26.7 Bln (EUR 948,500,000.00). Having reviewed this claim and the underlying arguments together with its external counsel, ČSOB is of the opinion that this claim is groundless and expects the Arbitral Tribunal not to award any amounts to the Czech Republic on the basis of this counterclaim.

From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult NV (“**KB Consult**”) were involved in the so-called transfer of cash companies. KB Consult acted as an intermediary between the seller and the purchaser of cash companies. The involvement of KBC Bank differed from case to case and related to the handling of payments and/or the granting of loans. The transfer of a cash company is in principle a completely legal transaction. Nevertheless, in March 1997, KBC Bank and KB Consult discovered that certain purchasers were apparently acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they purchased. KBC Bank and KB Consult immediately took the necessary measures to prevent any further involvement with these parties. The activities of KB Consult were subsequently wound up. KBC Bank and KB Consult were summoned to court in seventeen cases. In addition, KB Consult was placed under suspicion by an investigating magistrate in December 2004. A provision of EUR 39.8 million has been constituted to cover the potential impact of liability procedures in this respect.

In March 2000, Rebeo (currently Almafin Real Estate Services and Trustimmo, two former subsidiaries of Almafin<sup>1</sup>, were summoned, together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company), before the civil court in Brussels by the Belgian State, Finance Department, for payment of taxes amounting to EUR 16.7 million due by this real estate company. In November 1995, this company had been converted into a so called cash company and sold to Mubavi België, a subsidiary of Mubavi Nederland (a Dutch real estate investment group), which was at that time a completely legal transaction. According to the Belgian State, Finance Department, this purchaser did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002 started a lawsuit before the civil court in Antwerp, competent for tax matters, against the Belgian State, Finance Department. The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp. A provision of EUR 23.5 million has been constituted to cover the potential impact of liability procedures in this respect. In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België (currently BeZetVe) and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo (currently Almafin Real Estate Services) and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In Almafin used to be a subsidiary of Gevaert NV, but is currently a Belgian subsidiary of KBC Group NV; these companies are currently subsidiaries of Almafin Real Estate NV, which is a subsidiary of KBC Bank NV. March 2005, Mubavi Nederland was adjudged bankrupt by the court of ‘s-Hertogenbosch in the Netherlands. In November 2005, KBC Bank, KB Consult, Rebeo (currently Almafin Real Estate Services) and Trustimmo and the former four directors of Broeckdal Vastgoedmaatschappij summoned Deloitte & Touche as the

auditor of Broeckdal Vastgoedmaatschappij before the civil court in Brussels in order to indemnify the former against all judgments.

On a proposal by the Polish Organization of Commerce and Distribution ("POHiD") in Warsaw, the Office for Competition and Consumer Protection ("UOKiK") instituted legal proceedings against VISA and MasterCard and 20 Polish banks issuing payment cards in Poland – including KB S.A. – and also against the Polish Banks Association. On 29th December, 2006, the President of the UOKiK passed a decision by which: the President of UOKiK accused Kredyt Bank and other banks of practices restricting competition and breaching the ban set forth in art. 81 (1) of the Treaty establishing the European Community and in art. 5 (1) point 1, of the Competition and Consumer Protection Act, by participating in an agreement to fix the amount of interchange fees collected for transactions made using VISA and MasterCard cards in Poland.

The banks have not been accused of practices restricting competition that consist in the coordination of actions to restrict entrepreneurs, which are not parties to such agreements, from accessing the market of services for the settlement of payments by consumers to commercial entities for purchases made using payment cards. Kredyt Bank S.A. has been fined 12, 158,370 PLZ. HSBC Bank Poland S.A. has been fined 192, 90 PLZ, and the proceedings against this bank have been dropped and will not be continued.

With regard to point 1 of the decision (to refrain from anticompetitive practices), an enforcement clause has been added to prevent the bank, from the time it receives the decision, from engaging in anticompetitive practices and requiring it to cease applying agreed interchange fees. As Kredyt Bank sold the shares of Prosper Bank SA to HSBC Bank Poland and undertook to pay all fines imposed on HSBC for the obligations of Prosper Bank existing on the date the sale agreement was concluded with HSBC Bank Poland, the fine described in point 4 will be also paid by Kredyt Bank.

On 12th January, 2007, a complaint was filed against the decision of the President of UOKiK to add the sanction clause of immediate enforceability. On 17th and 19th January, 2007, a complaint was filed against the decision of the President of UOKiK, on behalf of HSBC Bank Polska and Kredyt Bank, to consider participation in the agreement on fixing the amount of interchange fees by VISA, MasterCard and the banks as anticompetitive practice. On 18th January, 2007, the President of UOKiK passed a decision by which the banks are jointly obliged to pay POHiD the amount of 157,643 PLZ by way of reimbursement for the cost of the proceedings. Kredyt Bank filed a complaint against the decision, considering it to be groundless.

### 13. Material contracts

There are no contracts that are entered into in the ordinary course of KBC Bank's business, which could result in any group member being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligation to security holders in respect of the securities being issued/guaranteed.

### 14. Management

See overview below. There are no potential conflicts of interest between the duties to KBC Bank of the Members of the Management detailed below and their private interests or other duties.

<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Bank</i>
Andre Bergen*	KBC Bank Havenlaan 2 BE 1080 Brussel	President	Managing director of KBC Group NV President of the Executive Committee of KBC Group NV Managing director of KBC Insurance NV
Frans Florquin*	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Insurance NV Member of the Executive Committee of KBC Group NV
Herman Agneessens*	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Insurance NV Member of the Executive Committee of KBC Group NV

<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Bank</i>
Jan Vanhevel*	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Insurance NV Member of the Executive Committee of KBC Group NV
Guido Segers *	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Insurance NV Member of the Executive Committee of KBC Group NV
Chris Defrancq*	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Group NV Managing director of KBC Insurance NV President of the Executive Committee of KBC Insurance NV
Etienne Verwilghen*	KBC Bank Havenlaan 2 BE 1080 Brussel	Managing director	Managing director of KBC Group NV Managing director of KBC Insurance NV Managing director of Kredietbank SA Luxembourgeoise President of the Executive Committee of Kredietbank SA Luxembourgeoise
Jan Huyghebaert	KBC Bank Havenlaan 2 BE 1080 Brussel	Chairman of the Board of Directors	Chairman of the Board of Directors of KBC Group NV Chairman of the Board of Directors of Kredietbank S.A. Luxembourgeoise Deputy-Chairman of KBC Insurance NV Member of the Executive Committee of the Federation of Enterprises in Belgium (FEB)
Luc Philips	KBC Bank Havenlaan 2 BE 1080 Brussel	Vice chairman of the Board of Directors	Chairman of the Board of Directors of KBC Insurance NV Director of KBC Group NV Director of Kredietbank S.A. Luxembourgeoise
Sonja De Becker	MRBB cvba Diestsevest 40 BE 3000 Leuven	Director	Director of Maatschappij voor Roerend Bezit van de Belgische Boerenbond (MRBB) CVBASecretary General of Belgische Boerenbond
Julien De Wilde	Jabekestraat 49 9230 Wetteren	Director	Director of Telenet Group Holding NV
Franky Depickere (as from 16.09.06)	Cera CVBA Philipssite 5/B10 BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV Chairman of the Management Committee of Cera CVBA Director of KBC Group NV Director of KBC Insurance NV Director of Kredietbank S.A. Luxembourgeoise
Pierre Konings	Prins Van Oranjelaan 178 BE 1180 Brussel	Director	Director of BD World NV
Lode Morlion	Cera CVBA Philipssite 5/B10 BE 3001 Leuven	Director	Director of Cera Beheersmaatschappij NV Gedelegeerd bestuurder NV Almond & Co
Marita Orlent-Heyvaert	Richard Orlentstraat 5 BE 2070 Zwijndrecht	Director	Director of Robor NV Managing Director of Inkao-Invest BVBA
Paul Peeters	Pharmacia NVRijksweg 12 BE 2870 Puurs	Director	Director of Pharmacia NV Director of Cera Beheersmaatschappij NV Director of Almancora Beheersmaatschappij NV
Gustaaf Sap	Advocatenkantoor SAP Justitiestraat 24 BE 2017 Antwerpen	Director	Permanent representative of CECAN Invest NV on the Board of Directors of VUM Media NV
Patrick Vanden Avenne	Vanden Avenne Oostrozebeekstraat 160 BE 8710 Ooigem	Director	Managing Director of Vanden Avenne-Ooigem NV
Germain Vantieghem	Cera CVBA Philipssite 5/B10 BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV Member of the Management Committee of Cera CVBA Director of KBC Group NV Director of KBC Insurance NV

<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Bank</i>
Dirk Wauters	Siemens Atea NV Atealaan 34 BE 2200 Herentals	Director	Vice-President of Siemens Atea NV
Marc Wittemans	MRBB cvba Diestsevest 40 BE 3000 Leuven	Director	Director of KBC Group NV Secretary General of Maatschappij voor Roerend Bezit van de Belgische Boerenbond (MRBB) CVBA

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\* These members form the Executive Committee of KBC Bank

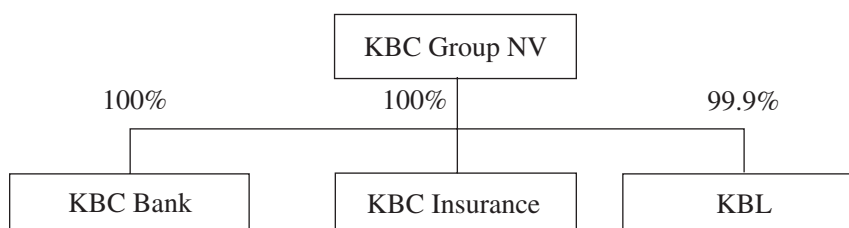
## DESCRIPTION OF KBC HOLDING

### 1. Creation and Introduction

KBC Group NV (“**KBC Holding**”) was incorporated in Belgium on 9 February, 1935 for an indefinite duration in the form of a public limited liability company (with number BE-0403.227.515) as the Kredietbank NV, and changed its name to the present form as from 2 March 2005 (see below - *Merger of KBC holding with Almanij*). KBC Holding operates under Belgian laws, and has its registered office at 2 Havelaan, BE-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154.

KBC Holding is a financial holding company which has as its object the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services to third parties, as mandatory or otherwise, in particular to companies in which the company has an interest – either directly or indirectly. KBC Holding is registered as a credit institution with the Belgian Banking, Finance and Insurance Commission (*Commissie voor Bank-, Financier- en Assurantiwezen*) (the “**CBFA**”).

*Merger of KBC Holding with Almanij:* On 2nd March, 2005, the extraordinary general shareholder meetings of KBC Holding<sup>6</sup> and Almanij (which held a majority in KBC Holding) approved the restructuring of the Almanij-KBC group through the merger by acquisition of Almanij by KBC Holding. The merged entity has been renamed KBC Group NV. This restructuring, that only affects the shareholdership at the level of KBC Holding, has resulted in a simpler, more streamlined group structure with one single entity (KBC Holding) controlling the underlying companies KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank SA Luxembourgeoise (KBL) and Gevaert. In 2006, an Extraordinary General Meeting of Shareholders of KBC Holding approved the further simplification of the legal structure of the group, via the merger of Gevaert with KBC Holding (previously, Gevaert had been a 100% subsidiary of KBC Holding). The group structure was again simplified by the sale of a number of KBC Asset Management shares previously held by KBC Holding to (subsidiaries of) KBC Bank, making KBC Bank the majority shareholder in KBC Asset Management (previously, KBC Holding had been the majority shareholder). As a result of these moves, KBC Holding now has only three main direct subsidiaries (KBC Bank, KBC Insurance and KBL) instead of five (see diagram).



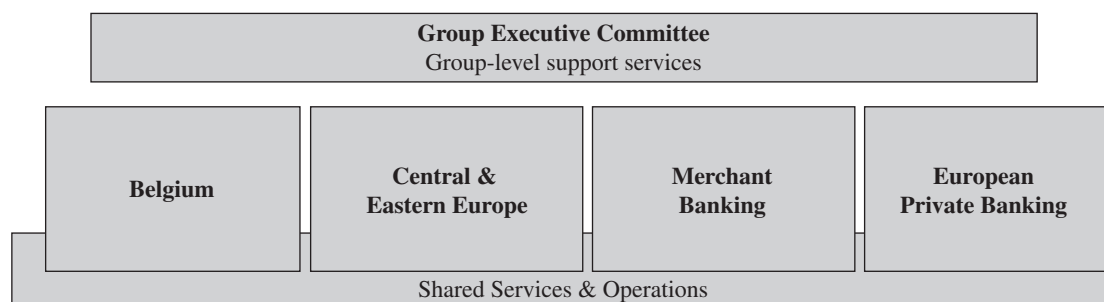
KBC Holding’s shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange. As at 31st December 2006, there were 363,217,068 ordinary shares of KBC Holding in circulation, as well as 2,606,452 Mandatorily Convertible Bonds (MCBs) 1998-2008 (which will be converted on or before 30th November, 2008 into KBC Holding shares according to a ratio of one ordinary share for one MCB). On 30 June 2007, these numbers were 354,999,049 (ordinary shares) and 2,594,748 (MCBs), respectively. Information on the existing share buyback programmes of the group is provided in its annual and quarterly reports, which are available on [www.kbc.com](http://www.kbc.com).

As of May 2006, a new management structure was rolled out throughout the KBC Group. This management structure is shown in the diagram and essentially breaks down the group into five business units: Belgium, Central & Eastern Europe, Merchant Banking, European Private Banking, and Shared Services & Operations (such as ICT and logistics and ‘product factories’ such as payment systems, asset

6 The KBC Bank and Insurance Holding Company was formed on June 1998, organizing the operations of the merged entities (Almanij – Kredietbank Group, CERA Bank and ABB) into KBC Bank, consolidating the insurance operations of the merged entities to form KBC Insurance and creating a holding company for the KBC group.



management, leasing and trade finance). Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the group CEO and group CFRO, constitute the group executive committee. Each business unit has direct responsibility for achieving the objectives set.



## 2. Short presentation of KBC Holding

### *Area of Activity*

The KBC Group is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, the KBC Group focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. The group is also active in a selection of other countries in Europe in private banking and the provision of services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions.

### *Business Unit Breakdown*

The KBC Group's management structure is structured around 5 business units:

**Belgium Business Unit:** This business unit groups all the banking and insurance activities in Belgium. Specifically, it comprises KBC Bank (retail and private banking activities), KBC Insurance and a number of Belgian subsidiaries, including CBC Banque, Centea, Fidea and ADD.

**Central & Eastern Europe Business Unit:** This business unit groups all banking and insurance activities pursued in Central and Eastern Europe. **Merchant Banking Business Unit:** This business unit groups the services provided to corporate customers and all market activities, except those performed by the group's Central and Eastern European subsidiaries. Specifically, it encompasses the merchant banking activities of KBC Bank in Belgium, its branches abroad and the specialised merchant banking subsidiaries of KBC Bank, as well as the activities of the insurance companies Secura and Assurisk, and a number of financing companies.

**European Private Banking Business Unit:** This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) – i.e. Kredietbank SA Luxembourgeoise and its subsidiaries in Western Europe – and the insurance company Vitis Life.

**Shared Services and Operations Business Unit:** This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group, such as Asset Management, ICT, Payments, Trade Finance, Leasing and Consumer Finance. Most of the expenses and income of this business unit are passed on to the other business units and consequently reflected in their results.

	(% OF TOTAL NUMBER OF ORDINARY SHARES)
<b>SHAREHOLDERS (as at 31 December 2006)</b>	
Almancora	20.9%
Cera	6.4%
MRBB	11.7%
Other core shareholders	11.8%
KBC Group companies	4.3%
Free float	44.9%
<b>Total</b>	<b>100.0%</b>

**NETWORK (as at 31 December 2006)**

Bank branches in Belgium (KBC Bank and subsidiary CBC Banque)	927
Bank branches in Central and Eastern Europe (subsidiaries ČSOB, K&H Bank and Kredyt Bank; excluding the minority participation in NLB)	874

**Long-Term Ratings of KBC Holding and KBC Bank (as at 30 September 2007)**

**KBC HOLDING**

Fitch	AA-
Moody's	Aa3
Standard and Poor's	A+

**KBC BANK**

Fitch	AA-
Moody's	Aa2
Standard and Poor's	AA-

List of main subsidiaries and associated companies of KBC Holding, as at 31 December 2006

<b>Company</b>	<i>Registered office</i>	<i>Ownership Percentage at KBC Bank Level</i>	<i>Activity</i>
<b>BANKING</b>			
Main fully consolidated subsidiaries			
Antwerpse Diamantbank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
Centea NV	Antwerp – BE	99.56	Credit institution
ČSOB a.s.	Prague – CZ	97.44	Credit institution
Fin-Force NV	Brussels – BE	63.03	Processing financial transactions
IIB Bank Plc	Dublin – IE	100.00	Credit institution
KBC Asset Management NV	Brussels - BE	100.00	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	99.76	Credit institution
KBC Bank Funding LLC & Trust (group)	New York - US	100.00	Issuance of trust preferred securities
KBC Bank Nederland NV	Rotterdam – NL	100.00	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	Clearing
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Shares and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing

<b>Company</b>	<i>Registered office</i>	<i>Ownership Percentage at KBC Bank Level</i>	<i>Activity</i>
KBC Peel Hunt Limited	London – GB	99.99	Stock exchange broker/corporate finance
KBC Private Equity NV (ex-KBC Investco NV)	Brussels – BE	100.00	Private equity
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	99.96	Credit institution
Kredyt Bank SA	Warsaw – PL	80.00	Credit institution
Main proportionately consolidated subsidiaries			
Internaional Factors NV	Brussels – BE	50.00	Factoring
Main associated companies			
Nova Ljubljanska banka d.d. (NLB)	Ljubljana - SI	34.00	Credit institution
<b>INSURANCE</b>			
Main fully consolidated subsidiaries			
ADD NV	Heverlee – BE	100.00	Insurance company
Assurisk NV	Luxembourg – LU	100.00	Insurance company
CSOB Pojist'ovna (Czech Rep.)	Pardubice – CZ	99.36	Insurance company
CSOB Pojist'ovna (Slovak Rep.)	Bratislava – SK	99.52	Insurance company
Fidea NV	Antwerp – BE	100.00	Insurance company
K&H Insurance Rt.	Budapest – HU	100.00	Insurance company
KBC Insurance NV	Leuven – BE	100.00	Insurance company
Secura NV	Brussels – BE	95.04	Insurance company
Vitis Life Luxembourg SA	Luxembourg – LU	99.99	Insurance company
VTB-VAB NV	Zwijndrecht – BE	64.80	Automobile assistance
TuiR WARTA S.A.	Warsaw - PL	100.00	Insurance company
Main proportionately consolidated subsidiaries			
NLB Vita d.d.	Ljubljana - SI	50.00	Insurance company
<b>EUROPEAN PRIVATE BANKING</b>			
Main fully consolidated subsidiaries			
Brown Shipley & Co Limited	London - GB	99.88	Credit institution
KBL Bank Ireland	Dublin - IE	99.88	Credit institution
Kredietbank SA Luxembourggeoise	Luxembourg – LU	99.88	Credit institution
Kredietbank (Suisse) SA	Geneva - CH	99.87	Credit institution
Merck Finck & Co	Munchen - De	99.88	Credit institution
Puilaetco Private Bankers SA	Brussels - BE	99.88	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam - NL	99.88	Credit institution
<b>HOLDING COMPANY ACTIVITIES</b>			
Main fully consolidated subsidiaries			
Almafin NV	Zaventem – BE	100.00	Financial services
KBC Exploitatie NV	Brussels – BE	100.00	Cost-sharing structure
KBC Group NV	Brussels - BE	100.00	Holding company

In the period between 31 December 2006 and 30 June 2007, the main changes in the list of (and participation percentages in) main subsidiaries and associated companies were the increase in the participation in International Factors from 50% to 100% (and full consolidation as of 2Q 2007); the sale of Banca KBL Fumagalli Soldan (subsidiary of Kredietbank SA Luxembourggeoise) and the acquisition of the Serbian bank A Banka.

### 3. Selected Financial Information

#### Key financial figures, KBC Holding

<b>Balance Sheet, end of period (in millions of EUR)</b>	<i>31 December 2005</i>	<i>31 December 2006</i>	<i>30 June 2007</i>
Total assets	325 801	325 400	344 169
Loans and advances to customers	119 475	132 400	134 065
Deposits from customers and debt securities	171 572	180 031	186 295
Gross technical provisions and liabilities under investment contracts, insurance	22 394	25 121	25 701
Parent shareholders' equity	15 751	17 219	17 201
Risk-weighted assets, banking	117 730	128 968	142 366

<b>Income Statement (in millions of EUR)</b>	<i>31 December 2005</i>	<i>31 December 2006</i>	<i>30 June 2006</i>	<i>30 June 2007</i>
Gross income	11 498	17 556	6 181	6 573
Operating expenses	-4 914	-4 925	-2 406	-2 522
Impairment	-103	-125	-64	-84
Net profit, group share	2 249	3 430	1 715	1 933
Of which, underlying result	2 306	2 548	1 410	1 660

### 4. Network and market position

<b>Bank network in Belgium and Central &amp; Eastern Europe (as at 31 December 2006)<sup>1</sup></b>		<i>Market share</i>	<i>Customers (in millions)</i>	<i>Branches</i>
Belgium	KBC Bank	21%	3.3	927
Czech Republic	ČSOB	22%	2.9	234
Slovakia	ČSOB	7%	0.2	103
Hungary	K&H Bank	10%	0.8	188
Poland	Kredyt Bank	4%	0.9	349

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

Excluding the minority stake in NLB in Slovenia, which is seen as a pure financial participation.

<b>Insurance network in Belgium and Central &amp; Eastern Europe (as at 31 December 2006)<sup>1</sup></b>		<i>Life Market share</i>	<i>Non-Life Market share</i>	<i>Customers (in millions)</i>
Belgium	KBC Insurance	15%	9%	1.5
Czech Republic	ČSOB Pojist'ovna	9%	4%	0.7
Slovakia	ČSOB Poist'ovna	4%	4%	0.2
Hungary	K&H Insurance	4%	4%	0.5
Poland	WARTA	3%	11%	2.0

1 Figures for market shares and customers are own KBC Bank estimates.

Excluding the stake in NLB Vita in Slovenia.

#### Share of the investment fund market in Belgium and Central & Eastern Europe (as at 31 December 2006)<sup>1</sup>

Belgium	34%
Czech Republic	28%
Slovakia	10%
Hungary	18%
Poland	4%

1 Figures are own KBC Bank estimates.

Excluding Slovenia.

## **Network in Belgium**

At the end of 2006, KBC Bank had a network of 927 branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The branch network is broken down into 869 retail branches, 33 corporate branches (including the social profit branches) and 25 private banking branches.

The Belgian retail market is also catered for by 708 independent agents working under the umbrella of the retail savings bank, Centea NV, a subsidiary of KBC Bank.

Besides traditional bank products, the KBC Group also markets the insurance products of KBC Insurance. To sell these products, the KBC Group has – besides its bank branches that sell standard insurance products – an extensive network of tied insurance agents (566 agencies at year-end 2006), who handle claims settlement as well. In addition, the group offers the insurance products of subsidiary Fidea through independent brokers and Centea agents. As regards the electronic networks, more information is given below.

The KBC Group serves some 3.3 million bank customers and around 1.5 million insurance customers in Belgium through all these networks.

The KBC Group's expansion has given private banking customers the choice of being served by KBC Bank and CBC Banque private banking branches or Puilaetco Dewaay Private Bankers, a subsidiary of Kredietbank Luxembourgaise 'European Private Bankers' group (KBL), a sister company of KBC Bank.

As at 31st December, 2006, KBC Bank had (based on its own estimates) a 20 per cent. share of the Belgian deposit market, a 22 per cent. share of the lending market, a 15 per cent. share of the Life insurance market, and a 9 per cent. share of the Non-Life insurance market. Over the past few years, the KBC Group has built up a strong position in investment funds, and leads the Belgian market with an estimated share of 34 per cent.

## **Network in Central and Eastern Europe**

Over the past few years, the KBC Group has built up an extensive banking and insurance network in strategically chosen countries in Central and Eastern Europe and, via its subsidiaries, is now one of the biggest financial groups in the region. Unlike many of its competitors there, the KBC Group not only has banking subsidiaries, it also has an insurance company in each of its core countries, enabling it to develop its bancassurance concept to the full.

At the end of 2006, the KBC Group's Central and Eastern European banking network comprised 874 branches belonging to its subsidiaries ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary and Kredyt Bank in Poland. This number does not take account of the KBC Group's presence in Slovenia and the other republics of the former Yugoslavia through its minority interest in Nova Ljubljanska banka (a total of some 400 branches) nor its presence in Serbia or Russia via the recently acquired A Banka and Absolut Bank (see below). Besides selling products through these bank branches, the group also uses other channels, such as the more than 3 000 Czech post offices, the points of sale of Kredyt Bank's Polish consumer finance subsidiary, and the various electronic channels, such as the Internet and phone banking.

The KBC Group has built up a second home market in Central and Eastern Europe not just in banking, but in insurance as well. At year-end 2006, this network included ČSOB Pojišťovna in the Czech Republic, ČSOB Poist'ovňa in Slovakia, WARTA in Poland, NLB Vita in Slovenia (a joint venture with Nova Ljubljanska banka), and K&H Insurance in Hungary. Together, these companies have a network of some 6,000 tied insurance agents. At the start of 2007, a deal was concluded for the acquisition of DZI Insurance, Bulgaria's largest insurance company (see below), with a network of around 8,000 agents.

Given the increasing sophistication of the Central and Eastern European region, there has been a shift to some extent away from traditional deposits to off-balance-sheet products, such as investment funds. Here, too, the KBC Group enjoys a very strong position in the region, in part because it is continuously introducing innovative products (including funds offering capital protection, which present an attractive alternative to traditional deposits in Central and Eastern Europe, too). Over the past few years, the asset management

activities in Central and Eastern Europe have been streamlined to the point that the KBC Group now has one asset management company in each of its home market countries there, operating under the umbrella of KBC Asset Management in Belgium, which – acting as a group-wide ‘product factory’ – assists the local companies to develop their asset management activities and launch investment funds.

The estimated market shares for bank products, investment funds and insurance in the various countries are shown in the table.

Thanks to this extensive banking and insurance network, the KBC Group has captured a prominent market position in selected countries and serves nearly 5 million banking customers (not counting NLB) and over 3 million insurance customers in the region. The KBC Group expects that this region will not only achieve significantly higher economic growth than Western Europe, but also that it will continue to catch up as regards the penetration of bank and insurance products. The KBC Group consequently remains convinced that its presence in this region gives it a strong motor to drive growth in the future.

### **Network in the rest of the world**

Outside Belgium and Central and Eastern Europe, KBC Bank concentrates on merchant banking through a network of KBC Bank representative offices and branches (mainly in Western Europe, Southeast Asia and the US) and a number of subsidiaries. The main subsidiaries are IIB Bank (an Irish bank that provides financial services to SMEs and corporate customers, and also has a sizeable share of the home loan market), KBC Bank Nederland (which is based in Rotterdam and engages in corporate banking activities, relationship management and providing operational support to the group’s business-network customers) and KBC Bank Deutschland (which operates through a limited branch network in the banking market for local mid-sized companies, banks and network customers doing business in Germany). The subsidiaries engaging in more specialised activities are mentioned below.

Following the rationalisation of the past few years, no substantial changes were made to this network in 2006 (only the office in Manilla was closed). It was also decided to open, in 2007, a branch in Spain. If deemed necessary, KBC Bank may open new branches in future, in order to improve market coverage.

The KBC Group is also involved in asset management in this part of the world via, *inter alia*, its Irish subsidiary, KBC Asset Management Limited. KBC AM is also active in the US, Germany, and in Asia.

The KBL EPB group’s parent company, Kredietbank SA Luxembourgeoise, is located in Luxembourg. Besides pursuing private banking and some niche activities there, it continues to develop specific support services (such as IT, back-office operations, global custody services and product support) within a Hub Service Centre for KBL EPB’s Europe-wide activities. Over the past few years, KBL EPB has been rapidly building up an on-shore network of local private bankers in a selection of Western European countries. Besides Luxembourg and Belgium, it is now present in Germany, France, the United Kingdom, Switzerland, Monaco and the Netherlands.

As regards insurance activities, the KBC Group’s presence outside Belgium and Central and Eastern Europe is limited to the activities of the subsidiaries VITIS Life (Luxembourg) and Secura (reinsurance). See below.

### **Specialised activities**

The KBC Group is active in a large number of markets and activities, ranging from the plain vanilla deposit, credit, asset management and insurance businesses, to specialised activities (which are conducted out of specialised departments at head office or specialised subsidiaries) such as:

- acquisition finance (the financing of buyouts, whether by management or shareholders, of entire companies or company assets, with the repayment being derived primarily from future cash flows)
- payments services



- dealing room activities (via a number of dealing rooms in Western and Central Eastern Europe, the United States and the Far East)
- brokerage and corporate finance (mainly via KBC Securities and KBC Peel Hunt)
- clearing (via KBC Clearing)
- foreign trade finance
- diamond finance (via Antwerpse Diamantbank)
- structured finance (structured trade finance and project finance, managed via KBC Finance in Ireland)
- International cash management
- specialised market activities of KBC Financial Products (including trading in equities and equity derivatives, credit derivatives, convertible bonds, CDO business etc.)
- leasing (mainly finance leasing, real estate leasing, renting, full-service car leasing and European vendor finance via KBC Lease group)
- private equity business (via KBC Private Equity, which finances buy-outs and provides mid-caps with growth capital)
- real estate services (including finance for property developers and real estate investors, real estate securitisation, real estate investment and project development services)
- insurance brokerage for businesses (among others via ADD)
- reinsurance (via Secura)
- insurance for high-net-worth customers (via VITIS Life)
- roadside and travel assistance (via VTB-VAB)

As regards asset management, due to a transfer of some shares of KBC Asset Management from KBC Holding to subsidiaries KBC Bank, the latter became the majority holder in KBC Asset Management and as a consequence, KBC Asset Management's results are now consolidated into KBC Bank's results. The services offered by KBC AM include individual asset management, institutional asset management (pension funds, social security funds, corporate liquidity management), as well as collective asset management, backed by research, product development, advisory management and marketing support. KBC AM has a subsidiary in Ireland, KBC Asset Management limited, and also operates in other countries, assisting, for example, KBC Bank's Central and Eastern European subsidiaries with the launch of own or KBC Bank investment funds. In Belgium, asset management products are sold through KBC Bank, KBC Insurance, CBC Banque and Centea networks. In recent years, KBC Bank's share of the Belgian market in investment funds has been over 30 per cent. Through its banking and insurance subsidiaries, the KBC Group has also built up a position in asset management in Central and Eastern Europe (see above).

## **5. Significant acquisitions/disinvestments in 2006 and January-September 2007**

2006:

- acquisition of the 25% minority share in the Polish insurer WARTA; the KBC Group now holds 100% in this company.
- acquisition of the 40% minority share in the Hungarian K&H Bank; through this deal, the KBC Group increased its stake in K&H Bank from 59.5 per cent. to 99.96 per cent.
- sale of 5.5 per cent in the Polish Kredyt Bank, in compliance with the request of the National Bank of Poland to restore the free float of Kredyt Bank to 20 per cent ; the KBC Group now holds 80 per cent. of Kredyt Bank.

- Merger of the KBC Group's two Hungarian insurance companies, K&H Life and K&H general Insurance, into a single insurer, K&H insurance.
- Reassessment of KBC Bank's minority stake in NLB (Slovenia): this is now seen as a pure financial participation.
- Sale of the entire investment in the Spanish Banco Urquijo (a subsidiary of KBL).
- Acquisition of the wealth management firm ABALLEA FINANCE in France (by KBL)
- Acquisition of the 7.5 per cent. minority stake of EBRD in the Czech bank CSOB, by which it reached 97,4% in that bank as at end 2006. In 2007, the KBC Group launched a bid for the remaining shares in CSOB and now fully own this bank.
- Sale of the minority stakes in the Belgian Bank Card Company (21.55 per cent.) and Banksys (20.55 per cent.).

2007 (up to and including September):

- Acquisition of a 99.3% stake in the Romanian leasing company Romstal Leasing and full ownership of the Romanian broker Swiss Capital.
- Acquisition of a 100% stake in the Serbian A Banka
- Acquisition of a 100% stake in the Hungarian online retailbroker Equitas
- Acquisition of 70% in the Bulgarian insurance company DZI Insurance (to be followed by a bid on the remaining shares).
- Acquisition of a 95% stake in the Russian Absolut Bank
- Acquisition of majority participations in three Serbian brokerage companies (Senzal, Hipobroker and Bastion)
- Acquisition of a 51% stake in Baltic Investment Company, a corporate finance specialist in Latvia.
- Agreement on the purchase of a majority stake in the Bulgarian bank, EIB (Economic and Investment Bank).
- Sale of the Italian Banca KBL Fumagalli Soldan (subsidiary of KBL).
- Take-over of the 50% stake of ING Belgium in International Factors (the second most important factoring company in Belgium); the KBC Group now fully owns this company.
- Acquisition (by KBC Asset Management) of a 51% stake in the asset manager Liontamer (Australia and New Zealand).

Some of these acquisitions still have to be approved by the relevant authorities.

In general, it will remain KBC Bank's policy to continue to look for expansion possibilities that fit into its strategy, especially in Central and Eastern Europe. This can be done either by add-on acquisitions and branch network increases in the countries the KBC Group is already present in (for instance, in the next few years, some 250-300 new branches will be opened in the Central Eastern European region), or by acquisitions in other countries of the region.

In meeting its obligations as described above, it is anticipated that the KBC Group will utilise the highly diversified funding base at its disposal. The broad customer base of KBC Bank (both in Belgium and in Central and Eastern Europe) provides it with a stable source of retail funding and its international name allows it to attract wholesale funding from a diversified group of counterparties. The KBC Group regularly reviews its structural funding needs, and long-term working funds are raised in accordance with those anticipated needs.

## 6. Cross-selling

The KBC Group considers itself to be an integrated bancassurer and illustrated this clearly through the new management structure it introduced in 2006. Certain shared and support services are since then organised at group level, serving the entire group, and not just the bank or insurance businesses separately. The KBC Group is divided up into five divisions (the so-called ‘business units’), each combining both banking and insurance activities. It is the KBC Group’s explicit aim to continue to actively encourage the cross-selling of bank and insurance products within the group’s various business units.

The success of the KBC Group’s bancassurance concept can be measured by various factors, including the number of customers the bank and insurer share, as well as by sales of insurance products via the bank distribution channels.

The success of the KBC Group’s bancassurance model is in part due to the co-operation that exists between the bank branches of KBC Bank and the insurance agents of KBC Insurance, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of agents, the call centre and the head office departments at KBC Insurance.

The KBC Group’s bancassurance concept has over the past few years been exported to the KBC Group’s Central and Eastern European entities. In order to be able to do so, the KBC Group has built up a second “home” market in Central Eastern Europe both in banking (via KBC Bank) and in insurance (via KBC Insurance). The group now has an insurance business in each Central and Eastern European country in which it also has a major banking presence (the Czech Republic, Slovakia, Poland, Slovenia and Hungary).

## 7. E-banking

The brick-and-mortar networks in Belgium and Central Eastern Europe are supplemented by electronic channels, such as ATMs, telephones and the Internet.

As at 31st December, 2006, the branch network in Belgium was supplemented by 1,240 automated “**KBC Matic**” teller machines that allow customers to make fund transfers and receive account statements. KBC Bank also has a “**KBC-Telecenter**,” which allows customers to effect the most current transactions, including securities trading, by phone. Customers who want to do their banking business directly by phone are offered “**KBC-Phone**” or “**CBC-Phone**” facilities. On the KBC Group web site visitors can find a variety of information and can carry out loan, investment and insurance-related simulations. PC and Internet banking can be done via “**KBC-Online**”, “**CBC Online**” and “**Centea Online**”.

These alternative channels have proved popular. For example, in Belgium at the end of 2006, there were roughly 510,000 customers actively using the online systems, a 16 per cent. increase within one year.

<b>E-banking indicators – Belgium</b>	<i>31 December 2005</i>	<i>31 December 2006</i>
Number of KBC- and CBC-Matic ATMs	1 204	1 240
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	2.7 million	3.2 million
Active subscribers to KBC’s Internet and PC banking facilities	440,000	510,000
Active subscribers to KBC’s telephone banking services	47,000	42,000

KBC Bank also offers various electronic services to its business customers, including KBC-Online for Business, KBC-Flexims (an internet channel that customers can use to apply to KBC Bank for documentary credit, documentary collections and international bank guarantees or to modify such facilities), and more recently, WISE, which enables companies to remotely initiate and approve local and cross-border payments and direct debits.

## 8. Private banking strategy in Belgium

With the expansion of the KBC Group, and in particular with the inclusion of KBL, the private banking strategy has been updated. In Belgium, this has led to a dual-brand strategy being adopted.

KBC Bank and CBC Banque operate a private banking network of 25 specialised branches that offer high-net-worth customers a broad range of private banking services, along with the expertise of a large bank. Via these branches, KBC Bank provides both advisory and discretionary portfolio management services, tailored to clients' individual needs and objectives. The needs of private banking clients are catered for on a privileged basis and they are offered services reserved specifically for them, such as exclusive investment funds and bond issues, funds of other asset managers and exclusive management solutions. In Central Eastern Europe KBC Bank is developing private banking activities based on this model.

In addition, since the new KBC Group was formed, Belgian clients have been able to opt for the private banking service provided by Puilaetco Dewaay Private Bankers, a subsidiary of the KBL group.

## **9. Competition**

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

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

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

In Belgium, the KBC Group is perceived as belonging to the top-3 financial institutions. For certain products or activities, the KBC Group estimates it has a leading position (e.g. investment funds). The main competitors in Belgium are Fortis, Dexia and ING, though for certain products (such as insurance), services or markets, other financial institutions may also be important competitors.

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

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

## **10. Risk Management**

Risk management in the KBC Group is effected group-wide. A description of risk management in the KBC Group is available in the 2006 Annual Report of KBC Holding. Below, only a selection of this information is provided – for a full picture, please refer to the annual report of KBC Holding).

### **Risk governance**

The main risks incurred by a financial services group such as the KBC Group are credit risks, Asset/Liability Management (ALM) risks, market risks, operational risks and technical insurance risks.

- Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by a borrower, guarantor, counterparty to an interprofessional transaction or issuer of a debt instrument, due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as 'country risk'.

- ALM entails managing the macroeconomic risks attendant on balance-sheet and off-balance-sheet transactions in the banking book (i.e. all activities not belonging to the trading book, including the forex and securities trading activities of the bank and the specialised subsidiaries) and those of the insurance business.
- Market (or trading) risk is the risk of loss due to market movements causing a drop in the value of the interest rate, currency, equity and credit market positions held by the bank's dealing rooms either at KBC Bank, KBL (KBC European Private Bankers or KBL EPB) or at the specialised subsidiaries KBC Financial Products, KBC Securities and KBC Peel Hunt.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- The technical insurance risks include tariffication and acceptance risk, the risk that reserves will prove inadequate, the risk of serious accidents and catastrophes, and the risk of insurance fraud.

### Credit risk management, banking activities

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

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

	<i>31 December 2005</i>	<i>31 December 2006</i>	<i>30 June 2007</i>
<b>Loan portfolio, KBC Bank and KBL EPB</b>			
<b>Total loan portfolio (in billions of EUR)</b>			
Amount granted	174.8	185.7	195.9
Amount outstanding	126.9	138.6	151.3
<b>Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)</b>			
Belgium )	29%	29%	29%
Central & Eastern Europe	16%	18%	19%
Merchant banking	52%	51%	51%
European Private Banking	4%	2%	2%
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>
<b>Loan portfolio breakdown by sector (selected sectors as a % of the portfolio of credit granted)</b>			
Real estate	6%	6%	6%
Electricity	3%	3%	3%
Aviation	0.6%	0.5%	0.6%
Automobile industry	3%	3%	3%
<b>Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)</b>			
Specific impairment	2 532	2 001	2 001
Portfolio-based impairment	290	222	228
Loan loss ratio (net changes in individual and portfolio-based impairment for credit risks / average outstanding loan portfolio)	0.01%	0.13%	0.11%

**Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)**

Amount outstanding	2 848	2 221	2 250
Specific impairment for non-performing loans	2 056	1 541	1 565
Non-performing ratio (amount outstanding of NP loans/ total outstanding loan portfolio)	2.2%	1.6%	1.5%
Cover ratio of NP loans by specific impairment for NP loans	72%	69%	70%
Cover ratio of NP loans by specific and portfolio-based impairment for performing and NP loans	99%	100%	99%

The table also provides information on impaired and non-performing loans (based on IFRS data). On KBC Bank's internal Probability of Default (PD) scale, impaired loans coincide with the worst loan classes, i.e. loans to clients with a PD of 10, 11 and 12. In respect of these impaired loans, specific loan impairments are recorded under IFRS. In addition, a portfolio-based impairment is recognised (a formula based on PD classes 8 and 9). The related loan loss ratio (note: negative figures indicate a net retrieval of loan loss impairments) is also given in the table.

Non-performing loans are impaired loans (and corporate and bank bonds in the investment portfolio) for which principal repayments or interest payments are more than ninety days overdue. This coincides with loans to clients with PD classes 11 and 12. The table provides information on non-performing loans, including the 'non-performing ratio' and the 'cover ratio'.

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk:

- short-term commercial exposure: trade-related commitments, where the term does not surpass 2 years and the counterparty is a bank (such as confirmed or guaranteed documentary credits and documented pre-export financing and post-import financing). As at 31st December, 2006, this exposure (100 per cent. weighted, excluding the portion covered by the Belgian Export Credit Agency, NDD) amounted to 1.3 billion euros (31st December 2005: 1.1 billion euros);
- counterparty risk of inter-professional transactions: refers to placements (money market transactions) and the pre-settlement risk of derivatives (forex products, swaps and options). As at 31st December 2006, this exposure (weighted as positive present value, plus add-on – more explanation in the annual report of KBC Holding) came to 23.2 billion euros (31st December 2005: 19.5 billion euros);
- trading book securities - issuer risk: refers to the potential loss on default by the issuer of the trading securities. As at 31st December 2006, the trading issuer risk came to approximately 2.3 billion euros (31 December 2006: 3.1 billion euros);
- government bonds in the investment portfolio: the exposure related to government bonds amounted to 37 billion euros as at 31st December 2006 (39 billion euros as at 31 December 2005) and was accounted for mainly by bonds on EU states (particularly Belgium).

KBC Bank's methodology for calculating country risk is explained in the 2006 Annual Report of KBC Holding. The table below shows the result of this calculation for 31st December, 2006. This calculation encompasses more than the loan portfolio, as it also includes (the country risk involved in) inter-professional transactions and short-term commercial transactions. However, transactions in local currency and the whole euro zone are excluded from the calculation, as they do not entail any transfer risk.



**Country risk at 31 December 2006 (excluding local-currency transactions) of KBC Bank and KBL  
EPB (in millions of EUR)**

	<i>Total</i>	<i>Western Europe (excl. euro zone)</i>	<i>Central Eastern Europe</i>	<i>Asia</i>	<i>North America</i>	<i>Middle East</i>	<i>North America</i>	<i>Africa</i>	<i>Oceania</i>	<i>Inter- national institu- tions</i>
<b>Breakdown by region</b>										
IFC 'B' loans	25	0	0	6	0	1	14	4	0	0
Performance risks	1 031	23	591	28	20	33	159	168	9	0
Other loans	15 371	3 325	7 236	2 277	1 732	464	108	129	70	31
Bonds and shares	5 341	1 612	782	547	1 791	139	199	10	67	193
Inter-professional transactions (weighted)	8 828	6 411	926	666	513	97	161	28	6	19
MLT export finance	53	0	26	3	0	12	2	8	0	1
Short-term commercial transactions	1 225	52	150	429	10	490	23	46	2	25
<b>Total</b>	<b>31,876</b>	<b>11,424</b>	<b>9,711</b>	<b>3,956</b>	<b>4,067</b>	<b>1,235</b>	<b>666</b>	<b>393</b>	<b>154</b>	<b>270</b>

**Breakdown by remaining tenor**

Not more than 1 year	14 208	7 123	2 597	2 323	1 095	525	292	131	47	74
More than 1 year	17 667	4 301	7 114	1 632	2 971	710	374	261	107	196
<b>Total</b>	<b>31,876</b>	<b>11,424</b>	<b>9,711</b>	<b>3,956</b>	<b>4,067</b>	<b>1,235</b>	<b>666</b>	<b>393</b>	<b>154</b>	<b>270</b>

In relation to the so-called "US sub-prime lending", the KBC Group has no direct sub-prime lending exposure and its relevant indirect sub-prime exposure consists of investments in collateralised debt obligations which carry some asset-backed securities underlying, as well as of a liquidity support line extended to Atomium, an off-balance sheet asset-backed commercial paper programme conduit managed by KBC Bank. The credit risk related to this exposure is limited due to the high credit ratings of the tranches held, which was confirmed in a stress test based on worst case assumptions as published by Merrill Lynch in a report dated 20 July 2007 which revealed that the expected amount of credit downgrading to 'default' was 9 million euros (based on 30 June 2007 situation; further details may be found in KBC Holding's Quarterly Report 2Q 2007).

**Asset/liability management**

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

**BPV of the ALM-book, KBC Bank and KBL EPB (in millions of EUR)**

Average, 1Q 2005	57
Average, 2Q 2005	53
Average, 3Q 2005	58
Average, 4Q 2005	76
31 December 2005	75
Maximum in 2005	82
Minimum in 2005	51
Average, 1Q 2006	76
Average, 2Q 2006	87
Average, 3Q 2006	88
Average, 4Q 2006	74
31 December 2006	67
Maximum in 2006	92
Minimum in 2006	66
Average, 1Q 2007	70
Average, 2Q 2007	54
30 June 2007	44
Maximum in 1H 2007	74
Minimum in 1H 2007	44

The table below provides – for the insurance business – an overview of the composition of the investment portfolio. In the consolidated financial statements of KBC Holding, the insurer's investment portfolio is not shown as such, but is spread over various balance sheet items.

**ALM risk: investment portfolio, insurance (carrying value, in millions of EUR)**

	<i>31st December 2005</i>	<i>31st December 2006</i>	<i>30th June 2007</i>
Bonds and other fixed-income securities	12 685	13 145	12 850
Shares and other variable-yield securities	4 197	4 529	4 853
Loans and advances to customers	131	148	154
Loans and advances to banks	557	1 010	1 272
Property and equipment, and investment property	283	228	242
Liabilities under investment contracts, unit-linked	128	131	114
Other	7 778	9 367	9 298
<b>Total investment portfolio, KBC Insurance</b>	<b>25 759</b>	<b>28 558</b>	<b>28 782</b>

**Market risk management**

As already stated before, KBC Bank has a number of money and capital market dealing rooms in Western and Central Eastern Europe, the United States and the Far East, though the dealing room in Brussels accounts for the majority of the limits and risks. The dealing rooms abroad focus primarily on providing customer service in money and capital market products, funding local bank activities and engaging in limited trading for own account in local niches. All of the dealing rooms focus on trading in interest rate instruments as a result of activities on the forex markets traditionally being limited.

KBC Bank through its specialised subsidiaries KBC Securities, KBC Peel Hunt and KBC Financial Products engages in trading in equities and their derivatives, such as options and convertible bonds. Through KBC Financial Products, the bank is also involved in trading in credit derivatives and in managing and providing services in relation to hedge funds and launching and managing other instruments, including

Collateralised Debt Obligations (CDOs). Neither the bank nor its subsidiaries are active in the commodities markets.

The table below shows the Value-at-Risk (VAR; 99 per cent. confidence interval, 1-day holding period) for KBC Bank's dealing rooms on the money and capital markets, based on historical simulation. KBC Securities, and KBC Peel Hunt are not included in the table. The average VAR of KBC Securities was 0.3 million euros in 2006; the average VAR of Peel Hunt was 0.5 million euros. Figures for 1H 2007 were 0.6 million euros and 0.8 million euros, respectively. The table includes KBC Financial Product's VAR as of the fourth quarter of 2005.

**Market risk VAR (1-day holding period, in millions of EUR)**

	<i>KBC Bank</i>	<i>KBC Financial Products</i>
Average, 1Q 2005	4	*
Average, 2Q 2005	4	*
Average, 3Q 2005	4	*
Average, 4Q 2005	4	8
31 December 2005	3	6
Maximum in 2005	10	-
Minimum in 2005	2	-
Average, 1Q 2006	4	20
Average, 2Q 2006	4	12
Average, 3Q 2006	3	8
Average, 4Q 2006	3	7
31 December 2006	3	5
	<i>KBC Bank</i>	<i>KBC Financial Products</i>
Maximum in 2006	6	20
Minimum in 2006	2	4
Average, 1Q 2007	4	10
Average, 2Q 2007	4	10
30 June 2007	4	9
Maximum in 1H 2007	6	15
Minimum in 1H 2007	3	4

\* Up to and including the third quarter of the year, KBC FP's risk exposure was measured using the scenario analysis technique.

## 11. Staff

As at 31st December, 2006, KBC Holding had, on a consolidated basis, about 50,000 employees (in full-time equivalents (FTE)), the majority of which were located in Belgium (especially KBC Bank NV) and Central and Eastern Europe (especially CSOB in the Czech and Slovak republics, Kredyt Bank and Warta in Poland and K&H Bank in Hungary).

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

## 12. Banking supervision and regulation

### Banking activities

#### Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed, comprehensive regulation in Belgium, supervised by the Belgian Banking, Finance and Insurance Commission (*Commissie voor Bank-, Financier- en Assurantiewezenen*) (“**CBFA**”), an autonomous public agency, acting as the supervisory authority.

European Union (“**EU**”) directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realization of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonization of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

#### Supervision and regulation in Belgium

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications (“**Banking Act**”). The Banking Act, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (hereafter: “**Capital Requirements Directive**”) and by EC Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (hereafter: “**Capital Adequacy Directive**”). It sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the CBFA. The main objective of the Banking Act is to protect public savings and the stability of the Belgian banking system in general.

#### Supervision of credit institutions

All Belgian credit institutions must obtain a license from the CBFA before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfill numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 5% or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of “fit and proper” character to ensure proper and prudent management of the credit institution. The CBFA therefore requires the disclosure of the identity and participation of any shareholder with a 5% or greater capital or voting interest. If the CBFA considers that the participation of a shareholder in a credit institution jeopardises its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the CBFA is required each time a person intends to acquire shares in a credit institution, resulting in the direct or indirect ownership of 5% of the capital or voting rights or a multiple thereof. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the CBFA thereof one month in advance. The Belgian credit institution itself is obliged to notify the CBFA of any such transfer when it becomes aware thereof.

The Banking Act requires credit institutions to provide detailed periodic financial information to the CBFA and to the National Bank of Belgium (“**NBB**”). The CBFA also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The CBFA, in consultation with the NBB, and subject to the approval of the Ministers of Finance and of Economic Affairs, sets the minimum capital adequacy ratios applicable to credit institutions. The CBFA may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions.

Pursuant to the Banking Act, the CBFA may, in order to exercise its prudential supervision, require that all information with respect to the organization, the functioning, the position and the transactions of a credit institution be provided to it. The CBFA may supplement these communications by on-site inspections. The CBFA also exercises its comprehensive supervision of credit institutions through Statutory Auditors who co-operate with the CBFA in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the CBFA.

Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls and in that respect co-operates closely with the CBFA. As the lender of last resort to credit institutions, the NBB is empowered to make recommendations, which it may eventually render compulsory, to banks and other financial institutions. It is also empowered to enforce compliance with standards for balance sheet ratios. The NBB may require banks to make special deposits with it and to maintain set proportions of government paper holdings. It may impose ceilings on credit facilities and on interest rates payable on certain liabilities.

If the CBFA finds that a credit institution is not operating in accordance with the provisions of the Banking Act, that its management policy or its financial position is likely to prevent it from honouring its commitments or that it does not provide sufficient guarantees for its solvency, liquidity or profitability, or that its management structure, administrative and accounting procedures or internal control systems present serious deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the CBFA has the power to appoint a special commissioner to replace management, to suspend or prohibit all or part of its activities, to order the disposal of all or part of its shareholdings, and finally, to revoke the license of the credit institution.

### **Bank governance**

Belgian law and regulatory practices make a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general policy, which is entrusted to the Board of Directors. In order to ensure that such a distinction is maintained, Belgian regulatory practices require a credit institution and its principal shareholders to underwrite "internal governance rules" in order to ensure the autonomy of the banking function and the proper governance of the credit institution. The rules also require the principal shareholders of a credit institution to contribute to the institution's autonomy and stability.

### **Solvency supervision**

Capital requirements and capital adequacy ratios are provided for in the CBFA's Regulation on own funds of 17 October 2006 as approved by Ministerial Decree of 27 December 2006 (hereafter: "the 2006 Decree on own funds"), transposing the Basel II related provisions of the Capital Requirements Directive and the Capital Adequacy Directive. The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements, and is further limited by the general provisions of Belgian company law.

The 2006 Decree on own funds requires that the solvency of Belgian credit institutions be measured by a ratio that serves as the basis for the calculation of the minimum required capital. This capital requirement is principally determined by the degree of credit risk that is inherent in each item of the balance sheet and in each off-balance-sheet item. Each bank subject to the 2006 Decree on own funds must maintain a capital adequacy ratio (the "**CAD ratio**") of total capital (Tier I and Tier II) to risk-weighted assets, of no less than 8%. The CAD ratio also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. The CAD ratio may increase to cover temporary large exposures that exceed the exposure limit described below.

Solvency is also measured by the gearing ratio, which compares shareholders' equity to debt to third parties, as defined in applicable regulations. The 2006 Decree on own funds also stipulates that in no event may the total capital of credit institutions be less than total fixed assets.

## **Large exposure supervision**

Belgian regulations also ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25% of the total capital and the total amount of concentrated risks (single counterparty exposures larger than 10% of total capital) to 800% of total capital. Belgian regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

## **Equity investments**

Belgian credit institutions may make equity investments in commercial and industrial companies. However, such investments (of 10% or more) may not exceed: (i) 15% of the shareholders' equity of the credit institution on a per investment basis, or (ii) 45% of the shareholders' equity of the credit institution in the aggregate.

## **Money laundering**

Belgium has implemented EU Directive 91/308 of 10 June 1991 on the prevention of the use of the financial system for the purpose of money-laundering (amended by EU Directive 97/2001 of 4 December 2001) in an Act of 11 January 1993, as amended (amongst others, by the Act of 12 January 2004). This legislation constitutes a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms, and employee training requirements on various categories of institutions and professionals, including credit and financial institutions. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. The unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The CBFA has issued guidance to credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraph 1, 2 3 and 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of five years and/or a penalty of a minimum of 26 euros and a maximum of 100.000 euros (to be increased with the additional penalty, or – in other words – to be multiplied by 5).

## **Consolidated supervision**

KBC Bank is subject to consolidated supervision on the basis of the consolidated financial situation of the KBC Group, which covers solvency and large exposure as described above, pursuant to Article 49, § 4 of the Banking Act.

## **Insurance activities**

### **Introduction**

KBC Insurance, an insurance company governed by the laws of Belgium, is subject to detailed, comprehensive regulation in Belgium, supervised by the CBFA.

EU directives have had and will continue to have a significant impact on the regulation of the insurance business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realisation of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.



## **Supervision and regulation in Belgium**

The insurance regime in Belgium is governed by the Insurance Supervision Act, as amended. The Insurance Supervision Act, among other things, implements the European legislation as co-ordinated by, *inter alia*, EU Directive 73/239 of 24 July 1973 on the co-ordination of laws, regulations and administrative provisions relating to the conduct of the business of direct insurance, other than life insurance, as amended and EU Directive 2002/83 of 5 November 2002 concerning life insurance. It sets forth the conditions under which insurance companies may operate in Belgium and defines the regulatory and supervisory powers of the CBFA. The regulatory framework is in some respects similar to the regulation applicable to banks in Belgium.

### **Supervision of insurance companies**

All Belgian insurance companies must obtain a license from the CBFA before they may commence operations. In order to obtain a license and maintain it, each insurance company must fulfill numerous conditions, including the requirement to apply certain “technical reserves” for the adequate fulfillment of its contractual and legal obligations, as well as a minimum “solvency margin” in order to cover any unforeseeable liabilities. In addition, any shareholders holding (directly or indirectly, acting alone or in concert with third parties) a substantial stake in the company (in general, this means 10% or more of the capital or the voting rights) must be of “fit and proper” character to ensure proper and prudent management of the insurance company. Moreover, any shareholder wishing to increase such substantial stake to a 20%, 33% or 50% capital or voting interest or to any stake that allows him to exercise control over the company, must disclose this to the CBFA. If the CBFA considers that the influence of such a shareholder in an insurance company jeopardises its sound and prudent management, it may suspend the voting rights attached to this participation. Furthermore, a shareholder who wishes to sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the CBFA thereof one month in advance. The Belgian insurance company itself is obliged to notify the CBFA of any such transfer when it becomes aware thereof.

The Insurance Supervision Act requires insurance companies to provide detailed periodic financial information to the CBFA. The CBFA also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to insurance companies.

Pursuant to the Insurance Supervision Act, the CBFA may, in order to exercise its prudential supervision, require that all information with respect to the financial position and the transactions of an insurance company be provided to it, either by the insurance company itself or by its affiliated companies. The CBFA may supplement these communications by on-site inspections. The CBFA also exercises its comprehensive supervision of insurance companies through Statutory Auditors who collaborate with the CBFA in its prudential supervision. An insurance company selects its Statutory Auditors from among the list of auditors or audit firms accredited by the CBFA.

If an insurance company does not provide for the required technical reserves, the CBFA may restrict or prohibit the company’s free use of its assets. If an insurance company no longer meets the minimum solvency margin requirements, the CBFA may require that a recovery plan be prepared. In general, if the CBFA finds that an insurance company is not operating in accordance with the provisions of the Insurance Supervision Act, that its management policy or its financial position is likely to prevent it from honouring its commitments or that its administrative and accounting procedures or internal control systems present deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the CBFA has the power to appoint a special commissioner to replace management, to prohibit or limit certain activities, to dispose of all or part of its activities, and to order the replacement of the Board of Directors and management failing which it will itself appoint a provisional manager.

### **Insurance governance**

Belgian law and regulatory practices make a fundamental distinction between the management of insurance activities, which is the competence of the Executive Committee, and the supervision of management and the definition of the insurance company’s general policy, which is entrusted to the Board

of Directors. In order to ensure that such a distinction is maintained, Belgian regulatory practices require an insurance company and its principal shareholders to underwrite “internal governance rules” in order to ensure the autonomy of the insurance function and the proper governance of the insurance company. The rules also require the principal shareholders of an insurance company to contribute to the institution’s autonomy and stability.

### **Money laundering**

Belgian insurance companies are also subject to the Act of 11 January 1993 referred to above.

### **KBC Asset Management**

As from June 2005, the status of KBC Asset Management has been changed from ‘investment firm’ to a ‘management company of undertakings for collective investment in transferable securities (UCITS)’ (hereafter: “**UCITS-management company**”). Its activities are, *inter alia*, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the CBFA.

The UCITS-management company regime in Belgium is governed by the ‘Law on certain forms of collective management of investment portfolio’s’ of 20 July 2004 (“Act of 20 July 2004”). The Act of 20 July 2004 implements European Directive 2001/107/EC of 21 January 2002 (...) relating to UCITS with a view to regulating management companies and simplified prospectuses. This Act also sets forth the conditions under which UCITS-management companies may operate in Belgium and defines the regulatory and supervisory powers of the CBFA.

The regulatory framework concerning supervision on UCITS-management companies is for most part similar to the regulation applicable to investment firms. The Act of 20 July 2004 contains, *inter alia*, the following principles:

- certain minimum paid-up capital requirements, and rules relating to changes affecting capital structure;
- obligation to carry out their activities in the interests of their clients or of the UCITS that they manage (e.g.: creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the CBFA;
- subject to the same supervision of the CBFA and the same administrative sanctions imposed by the CBFA as mentioned above;
- subject to the supervision of Statutory Auditors.

### **Kredietbank SA Luxembourgeoise (KBL EPB)**

#### **Introduction**

Kredietbank S.A. Luxembourgeoise (“**KBL**”), a credit institution governed by the laws of Luxembourg, is subject to detailed, comprehensive regulation in Luxembourg, supervised by the Commission de Surveillance du Secteur Financier (“**CSSF**”), an autonomous public agency controlling the banking sector.

#### **Supervision and regulation in Luxembourg**

KBL is a fully-licensed credit institution governed by the Luxembourg law of April 5, 1993 on the Financial Sector, as amended from time to time (“**Financial Sector Act**”). Under the above Act, any institution willing to undertake banking activities in Luxembourg must, prior to starting its activities, obtain a license from the Ministry of Finance upon investigation of the CSSF. In order to obtain and hold the

license, the undertaking must fulfill numerous conditions, including certain minimum paid-up capital requirements.

In addition, any qualifying shareholder must be authorised on beforehand by the CSSF as of “fit and proper” character to ensure sound and prudent management of the credit institution. It is therefore required to disclose to the CSSF the identity and participation of any significant shareholder as well as any increase of shareholdership above certain thresholds and any divestment below such thresholds. When the acquisition takes place in spite of CSSF’s objection, underlying voting rights may be frozen and decisions already taken are subject to cancellation.

The Financial Sector Act, among other things, implements European legislation, as coordinated by European Union (“EU”) Directive 2006/48/EC of June 14, 2006, relating to the taking up and pursuit of the business of credit institutions as amended by EU Directive 2007/18/EC of March 27, 2007 and by EU Directive 2006/49/EC of June 14, 2006 on the capital adequacy of investment firms and credit institutions. It sets forth the conditions under which credit institutions may operate in Luxembourg and defines the regulatory and supervisory powers of the CSSF. The rationale behind the Banking Act is the protection of public savings and the stability of the Luxembourg banking system in general.

EU directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted within each Member State, including Luxembourg. The general purpose of these EU directives is to promote the realization of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonization of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

Credit institutions are thus bound by detailed, comprehensive regulations of the CSSF. They have to comply, amongst others, with capital adequacy and large exposure ratios, as provided for by CSSF Circular 06/273 of December 22, 2006 as amended by CSSF Circular 07/317 of September 10, 2007.

They are allowed to make equity investments in commercial and industrial companies, *provided however that* these investments remain in line with their commercial strategy, in view of their actual setting-up or future development.

The Financial Sector Act requires credit institutions to provide detailed periodic financial information to the CSSF. The CSSF also supervises enforcement of laws and regulations with respect to accounting principles applicable to credit institutions.

Pursuant to the Financial Sector Act, the CSSF may, in order to exercise its prudential supervision, require that all information with respect to the organization, functioning, position and the transactions of a credit institution be provided to it. The CSSF may supplement these communications by on-site inspections.

The CSSF also exercises its comprehensive supervision of credit institutions through statutory auditors who co-operate with the CSSF in its prudential supervision. A credit institution selects its statutory auditor from the list of auditors or audit firms authorised by the CSSF.

Within the context of the European System of Central Banks, the Luxembourg Central Bank (“LCB”) issues certain recommendations regarding monetary controls and in that respect co-operates closely with the CSSF. As the lender of last resort to credit institutions, the LCB is empowered to make recommendations, which it may eventually render compulsory, to banks and other financial institutions.

It is also in position to enforce compliance with standards for balance sheet ratios. The LCB may require banks to make special deposits with it and to maintain set proportions of government paper holdings. It may impose ceilings on credit facilities and on interest rates payable on certain liabilities.

If the CSSF finds that a credit institution is not operating in accordance with the provisions of the Financial Sector Act, that its management policy or its financial position is likely to prevent it from honouring its commitments or that it does not provide sufficient guarantees for its solvency, liquidity or profitability, or that its management structure, administrative and accounting procedures or internal control systems present serious deficiencies, it will set a deadline by which the situation must be remedied. If the

situation has not been remedied by the deadline, the CSSF has the power to appoint a special administrator to replace management, to suspend or prohibit all or part of its activities, to order the disposal of all or part of its shareholdings, and finally, to withdraw the license of the credit institution.

### **Money-laundering**

Under the above Financial Sector Act and under the Act of November 12, 2004, Luxembourg credit institutions are also subject to series of obligations in relation to fighting against money laundering and terrorist financing.

These obligations are related, *inter alia*, to the identification of the client (know-your-customer), monitoring of unusual transactions (know-your-transactions), reporting to authorities (suspicious-transaction-reports), setting up procedures and underlying employee training.

When money laundering or terrorist financing is possibly at stake, Luxembourg credit institutions must notify right away the Financial Intelligence Unit, being in Luxembourg the Luxembourg District Attorney. As a regulating body, the CSSF has issued a number of circulars outlining the obligations of Luxembourg banks with respect to money laundering, KYC policies and identification of terrorists.

These circulars, which stick to the spirit and text of EU provisions, are regularly updated and, over the years, their scope has been widened to include provisions on, for example, politically exposed persons, corruption, terrorist financing, bribery, weapons trafficking, trade in human beings and fraud against the interests of an International Organization. They have been merged in 2005 in Circular CSSF 05/211 dated October 13, 2005.

### **Supervision of KBC Holding**

KBC Bank, KBC Insurance, KBC Asset Management and KBL EPB are subject to consolidated supervision on the basis of the consolidated financial situation of the KBC Group, pursuant to, among other things, Article 49, § 4 of the Banking Act.

#### **13. Material contracts**

There are no contracts that are entered into in the ordinary course of KBC Holding's business, which could result in any group member being under an obligation or entitlement that is material to KBC Holding's ability to meet its obligation to security holders in respect of the securities being issued/guaranteed.

#### **14. Management**

The Board of Directors is made up of 26 members (Directors), three of whom are also members of the Executive Committee (Managing Directors). Four of the non-executive directors are independent directors. The designation 'independent director' is based on the relevant definition used by Euronext Brussels. The other Directors are representatives of the (principal) shareholders. The Board of Directors does not include any legal persons among its members and its Chairman may not be a member of the Executive Committee. There are no potential conflicts of interest between the duties to KBC Holding of the Members of the Management detailed below and their private interests or other duties.

<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Group NV</i>
Andre Bergen*	KBC Group Havenlaan 2 BE 1080 Brussel	President	President of KBC Bank Director of KBC Insurance
Frans Florquin**	KBC Group Havenlaan 2 BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Herman Agneessens**	KBC Group Havenlaan 2 BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Jan Vanhevel**	KBC Group Havenlaan 2 BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Guido Segers **	KBC Group Havenlaan 2 BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Chris Defrancq*	KBC Group Havenlaan 2 BE 1080 Brussel	Managing Director	President of KBC Insurance Managing Director of KBC Bank
Etienne Verwilghen*	KBC Group Havenlaan 2 BE 1080 Brussel	Managing Director	President of Kredietbank S.A. Luxembourgeoise Managing Director of KBC Bank Director of KBC Insurance
Jan Huyghebaert	KBC Group Havenlaan 2 BE 1080 Brussel	Chairman of the Board of Directors	Chairman of the Board of Directors of KBC Bank Chairman of the Board of Directors of Kredietbank S.A. Luxembourgeoise Vice Chairman of the Board of Directors of KBC Insurance Member of the Executive Committee of the Federation of Enterprises in Belgium (FEB)
Philippe Vlerick	Bic Carpets Walle 113 BE 8500 Kortrijk	Vice Chairman of the Board of Directors	CEO and Managing Director of UCO Textiles NV and BIC Carpets NV
Paul Borghgraef	Rozenlaan 24 BE 2970 Schilde	Director	Director of various companies

<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Group NV</i>
Paul Bostoën	Coupure 10 BE 9000 Gent	Director	Managing Director of Christeys NV and Algimo NV
Jo Cornu	Grouwesteenstraat 13 BE 9170 Sint-Gillis-Waas	Independent Director	Director of Alcatel NV
Luc Debaillie	Voeders Debaillie NV Kaaistraat 31 BE 8800 Roeselare	Director	Chairman and Managing Director of Voeders Debaillie NV
Noël Devisch	MRBB cvba Diestsevest 40 BE 3000 Leuven	Director	Chairman of MRBB cvba Director of KBC Insurance
Frank Donck	Ibervest NV Rijvisschestraat 118 BE 9052 Zwijnaarde	Director	Managing Director of 3D NV
Franky Depickere	Cera CVBA Philipssite 5/10 BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV Director of KBC Bank Director of KBC Insurance
Geradin Jean-Marie	Geradin Société d'Avocats 11 avenue Blonden BE 4000 Liège	Director	Lawyer Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV
Dirk Heremans	KUL Faculteit Econ. en Toegep. Wetenschappen Departement Economie Centrum voor Econ. Studieën Naamsestraat 69 BE 3000 Leuven	Independent Director	Professor at the Faculty of Economics and Applied Economics Katholieke Universiteit Leuven (KUL)
Herwig Langohr	INSEAD Boulevard de Constance FR 77305 Fontainebleau	Independent Director	Professor of Finance and Banking, INSEAD Director of KBC Insurance
Christian Leysen	Anbema NV Noorderlaan 139 BE 2030 Antwerpen	Director	CEO Ahlers Group
Xavier Liénart	Kapellaan 60a BE 1200 St.Lambrechts Woluwe	Director	Director of various companies and Director of Cera Beheersmaatschappij NV



<i>Name</i>	<i>Business address</i>	<i>Position</i>	<i>Principal offices outside KBC Group NV</i>
Philippe Naert	Struikenlaan 13 BE 2930 Brasschaat	Independent Director	Dean Tias Business School at Tilburg University and the Technical University Eindhoven
Luc Philips	KBC Group Havenlaan 2 BE 1080 Brussel	Director	Chairman of the Board of Directors of KBC Insurance Vice Chairman of the Board of Directors of KBC Bank Director of Kredietbank S.A. Luxembourgaise
Theo Roussis	Ravago Poederstraat 52 BE 2370 Arendonk	Director	CEO Ravago Plastics NV
Hendrik Soete	Aveve NV Minderbroedersstraat 8 BE 3000 Leuven	Director	Managing Director of Aveve NV
Alain Tytgadt	Prinses Josephinelaan 7 BE 8300 Knokke	Director	Managing Director of Metalunion CVBA
Guido Van Roey	InBev NV Brouwerijplein 1 BE 3000 Leuven	Director	Member of Management InBev NV and Chairman of the Board of Directors Cera Beheersmaatschappij NV
Jozef Van Waeyenberge	De Eik NV Eikelenbergstraat 20 BE 1700 Dilbeek	Director	Director of De Eik NV
Germain Vantieghem	Cera CVBA Philipssite 5/B10 BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV Director of KBC Bank Director of KBC Insurance
Marc Wittemans	MRBB cvba Diestsevest 40 BE 3000 Leuven	Director	Director of MRBB cvba

\* and \*\* These members form the Executive Committee of KBC Group

\*\* These members of the Executive Committee of KBC Group are not executive director.

### **Audit Committee and Corporate Governance**

The audit committee, which assists the board by supervising the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to accurate and correct financial reporting and overseeing KBC Holding's processes to comply with laws and regulations, has responsibilities (under the terms of the Audit Committee Charter drawn up by KBC Holding) relating to

(i) an annual review of the quality of internal controls (based on statements provided by the executive management and supplemented by the opinion of the internal audit); (ii) the integrity of KBC Holding's financial statements and financial reporting process; (iii) policy standards and guidelines for risk assessment and risk management; (iv) the compliance by KBC Holding with legal and regulatory requirements, including KBC Holding's disclosure controls and procedures; (v) the performance of the internal audit function; (vi) the annual independent audit of KBC Holding's consolidated financial statements and internal control over financial reporting, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance and (viii) the fulfillment of the other responsibilities set out in its Audit Committee Charter.

The members of the audit committee are Luc Philips (Chairman), Dirk Heremans, Herwig Langohr, Philippe Naert, Theo Roussis, Germain Vantighem and Marc Wittemans.

With the following exceptions, KBC Holding complies with the Belgian Code on Corporate Governance (which came into effect on 1 January 2005):

- Provision 5.2./1 stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. At least a majority of its members should be independent. The audit committee of KBC Holding is composed of seven non-executive directors, three of whom are independent. These independent directors, therefore, are in the minority on this committee;
- Provision 5.3./1 stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors. The nomination committee of KBC Holding is composed of six non-executive directors, of whom one is independent, and of one executive director.

When selecting the members of the audit and nomination committees, respectively, account is taken of the specific shareholder structure of KBC Holding and, in particular, of the presence of Cera, Almancora and MRBB and the other core shareholders on the audit and nomination committees. In this way, a balance is maintained that is beneficial to the stability and continuity of the KBC Group.

The same approach is followed when appointing the members of the Board of Directors of KBC Holding.

## **15. Memorandum and Articles of Association**

KBC Holding is a financial holding company, which has as its purpose, the direct or indirect holding and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions.

It is also the object of KBC holding to provide support services for third parties, and in particular, for companies in which KBC Holding retains an interest (whether direct or indirect).

The objects and purposes of KBC Holding are more fully set out in Article 2 of its memorandum and articles of association.

## TAXATION

### BELGIUM

*The following is a general description of certain Belgian tax considerations relating to the Securities and the Profit-Sharing Certificates. It does not purport to be a complete analysis of all tax considerations relating thereto. Prospective purchasers should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Belgium of acquiring, holding and disposing of Securities, Profit-Sharing Certificates, Conversion Upper Tier 2 Instruments and Junior Securities and receiving payments of interest, dividend, principal and/or other amounts thereunder. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

#### Belgian Withholding Tax

##### *Securities*

The holding of the Securities in the NBB clearing and settlement system (see “Summary of provisions relating to the Securities in global form”) permits most types of investors (the “**Eligible Investors**”, see below) to collect interest on their Securities free of withholding tax, and to trade their Securities on a gross basis.

Participants in the X/N System must keep the Securities they hold for the account of Eligible Investors on so called “X-accounts”, and those they hold for the account of non-Eligible Investors on “N-accounts”. Payments of interest made through X-accounts are free of withholding tax; payments of interest made through N-accounts are subject to a withholding tax of 35 per cent., which the NBB deducts from the payment and pays over to the tax authorities. Since the Securities may exclusively be held by Eligible Investors (see “Subscription and Sale”), payments of Coupons on the Securities will not give rise to withholding tax.

The main categories of Eligible Investors are as follows:

- Belgian resident corporate investors;
- Belgian pension funds;
- corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not;
- individuals who are non-residents of Belgium, unless their holding of the Securities is connected to a permanent establishment they have in Belgium; and
- non-incorporated foreign collective investment schemes (such as *beleggingsfondsen/fonds de placement*) whose units are not publicly offered or marketed in Belgium.

The main categories of non-Eligible Investors are as follows:

- Belgian resident individuals;
- Belgian non profit organisations (other than pension funds); and
- non-incorporated Belgian collective investment schemes (*beleggingsfondsen/fonds de placement*) and similar foreign funds whose units are publicly offered or marketed in Belgium.

(The above categories summarise the detailed definitions contained in Article 4 of the royal decree of 26 May 1994, to which investors should refer for a precise description of the relevant eligibility rules.)

When opening an X-account for the holding of Securities or other securities kept in the NBB clearing and settlement system, investors are required to provide the financial institution where this account is kept with a statement as to their tax status. This statement need not be periodically reissued. Different identification requirements apply to investors who are non-residents of Belgium and keep their Securities on a securities account through Euroclear or Clearstream, Luxembourg.

The withholding tax regime described above applies to all Coupons, including Deferred Coupons and interest on Elective Deferred Coupons, and irrespective of whether paid in cash by the Issuer or paid through the Alternative Coupon Payment Method (in which case the Fiscal Agent will pay through the X/N System participants, Euroclear or Clearstream, Luxembourg, the proceeds of the sale of the KBC Holding Ordinary Shares issued and sold in accordance with Condition 7(b) of the Securities (*Alternative Coupon Payment Method – Issuance, Exchange and Sale Procedure*)).

### ***Profit-Sharing Certificates***

Generally, dividends paid by the Issuer on the Profit-Sharing Certificates will be subject to withholding tax at the rate of 25 per cent. Residents in certain countries may have the benefit of a reduced rate of withholding tax in accordance with the applicable tax treaty. Non-residents of Belgium who do not carry out business activities and are exempted from income tax in their state of residence may benefit from an exemption of withholding tax on these dividends.

### **Capital Gains and Income Tax**

Holders of Securities or Profit-Sharing Certificates who are residents of Belgium or hold the Securities or Profit-Sharing Certificates through a permanent establishment in Belgium will be subject to Belgian income tax on the interest or dividends collected thereunder and, depending on their tax status, on capital gains realised in respect thereof.

Other holders of Securities or Profit-Sharing Certificates will not be subject to such Belgian income tax (save, as the case may be and as set out above, in the form of withholding tax).

### **Stamp duties**

Secondary market trades in respect of the Securities or Profit-Sharing certificates will give rise to stamp duty (*taks op beursverrichtingen / taxe sur les opérations de bourse*) if they are carried out through a financial institution established in Belgium. The amount of the stamp duty, however, is capped at EUR 500 per transaction, and various types of investors (including credit institutions, insurance companies, pension funds and all non-residents of Belgium) are exempted from this stamp duty.

### **Tax on the physical delivery of bearer securities**

The physical delivery to investors (other than qualifying financial institutions) of Securities or Profit-Sharing Certificates in definitive bearer form will be subject to a tax of 0.6 per cent., if such delivery takes place in Belgium. Delivery of the Securities in the form of a global certificate into the X/N System will not give rise to that tax. Deliveries made on the occasion of primary market subscriptions are exempt from the tax.

### **Inheritance duties**

No Belgian inheritance duties will be levied in respect of the Securities or Profit-sharing Certificates if the deceased holder was not a Belgian resident at the time of his or her death.

### **Implementation of the European Union Directive on taxation of savings income**

Belgium has implemented the EC Council Directive 2003/48/EC on the taxation of savings income (see paragraph “EU Savings Tax Directive” below). Interest paid through a paying agent in Belgium to individual investors resident in another EU member state or in certain third countries is subject to

withholding tax at the rate of 15% until 30 June 2008, then 20% until 30 June 2011, and then 35%. This tax will not apply if the investor submits to the paying agent an appropriate certificate of the tax authorities of his jurisdiction of residence.

## **LUXEMBOURG**

*The following is a general description of certain Luxembourg tax considerations relating to the acquisition, holding or disposal of the Securities. It specifically contains information on taxes on the income from the Securities withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Securities, whether in Luxembourg or elsewhere. Prospective purchasers of the Securities should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Securities payments of interest, principal and/or other amounts under the Securities and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Securities.*

### **Luxembourg Taxation**

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Securities can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

- (i) the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC) and several agreements concluded between Luxembourg and certain dependant or associated territories of the European Union ("EU") and providing for the possible application of a withholding tax (15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see, paragraph "EU Savings Tax Directive" below);
- (ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). This law applies to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

### **EU SAVINGS DIRECTIVE**

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income in the form of interest payment (the "EU Savings Directive"). The EU Savings Directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the laws of 21 June 2005. Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual resident or certain types of entities called "residual entities" (the "Residual Entities"), established in that other Member State (or certain dependent or associated territories). For a transitional period, however,

Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with one of two procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of the withholding will be of 15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% as from 1 July 2011. The transitional period is to commence on the date from which the EU Savings Directive is to be applied by Member States and to terminate at the end of first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. See “European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC)”.

Also with effect from 1 July 2005, a number of non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident or a Residual Entity established in a Member State. In addition, Luxembourg has entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories (Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual resident or a Residual Entity established in one of those territories.



## SUBSCRIPTION AND SALE

HSBC Bank plc, KBC Bank NV and Lehman Brothers International (Europe) (the “**Managers**”) have, in a subscription agreement dated 10 October 2007 (the “**Subscription Agreement**”) and made between the Issuer, KBC Holding and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Securities at their issue price of 92.773 per cent. of their principal amount, plus 297 days’ accrued interest thereon at the rate of 6.202 per cent. per annum in respect of the period from and including 19 December 2006 to but excluding 12 October 2007 less certain commissions, fees and expenses in connection with the issue of the Securities. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

The Managers have also agreed in the Subscription Agreement, that they will only sell the Securities so subscribed in minimum amounts of £500,000.

### United States of America

The Securities have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States. Each Manager has agreed that it will not offer, sell or deliver any Securities within the United States.

### Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Manager has severally represented, warranted and undertaken that:

1. **Financial Promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not or, in the case of the Issuer, would not if it was not an authorized person, apply to the Issuer or KBC Holding; and
2. **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

### Public Offer Selling Restriction Under The Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Securities which are subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided that* no such offer of Securities shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Securities to the public**” in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **Luxembourg**

Each Manager has severally represented, warranted and undertaken that it has not offered or sold and will not offer or sell any of the Securities in Luxembourg, other than in circumstances which comply with the requirements of Luxembourg laws and regulations.

### **General**

No action has been or will be taken in any jurisdiction by the Issuer, KBC Holding or any Manager that would, or is intended to, permit a public offering of the Securities, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, KBC Holding and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

## GENERAL INFORMATION

1. The creation and issue of the Existing Securities was authorised by resolutions of the Board of Directors and the Executive Committee of the Issuer dated 20 November 2003 and 28 October 2004 and 16 December 2003 and 26 October 2004, respectively. The creation and issue of the Securities has been authorised by resolutions of the Board of Directors of the Issuer dated 24 May 2007 and of the Executive Committee of the Issuer dated 22 May 2007. The Support Agreement dated 19 December 2003 was authorised by resolutions of the Board of Directors and the Executive Committee of KBC Holding dated 20 November 2003 and 16 December 2003, respectively. The first supplemental support agreement dated 3 November 2004 was authorised by resolutions of the Board of Directors and Executive Committee of KBC Holding dated 28 October 2004 and 26 October 2004, respectively. The second supplemental support agreement to be dated 12 October 2007 has been authorised by resolutions of the Board of Directors of KBC Holding dated 28 June 2007 and of the Executive Committee of KBC Holding dated 29 May 2007.
2. Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or KBC Holding is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries or KBC Holding and its Subsidiaries.
3. Save as disclosed in this Prospectus, since 31 December 2006 there has been no material adverse change in the prospects of the Issuer and since 30 June 2007 there has been no significant change in the financial or trading position of the Issuer. Since 31 December 2006 there has been no material adverse change in the prospects of KBC Holding and since 30 June 2007 there has been no significant change in the financial or trading position of KBC Holding.
4. For so long as any of the Securities are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:
  - (a) the Securities Agency Agreement;
  - (b) the Agency Agreement;
  - (c) the Deed of Covenant;
  - (d) the Support Agreement;
  - (e) the Contingent Guarantee Agreement;
  - (f) the articles of association of the Issuer; and
  - (g) the articles of association of KBC Holding.
5. For so long as any of the Securities are outstanding, copies of the following documents (together with English translations thereof) may be obtained during normal business hours at the Specified Office of each Paying Agent:
  - (a) the audited consolidated financial statements of the Issuer for the years ended on 31 December 2005 and 31 December 2006;
  - (b) the audited consolidated financial statements of KBC Holding for the years ended on 31 December 2005 and 31 December 2006; and
  - (c) the latest published unaudited interim consolidated financial statements of KBC Holding and the latest audited year end consolidated financial statements of the Issuer and KBC Holding.

KBC Holding publishes quarterly unaudited consolidated interim financial statements. The Issuer does not publish quarterly financial statements. Neither the Issuer nor KBC Holding publish unconsolidated financial statements.

6. The consolidated financial statements of the Issuer and KBC Holding have been audited without qualification for the years ended 31 December 2005 and 31 December 2006 by Ernst & Young Bedrijfsrevisoren BCVI, at Marcel Thirylaan 204, 1200 Brussels, Belgium. The auditors of the Issuer and KBC Holding are members of the *Instituut der Bedrijfsrevisoren / Instiut des Réviseurs d'Entreprises*.
7. On the basis of the issue price of the Securities of 92.773 per cent. of their principal amount, the yield of the Securities is 7.104 per cent. on an annual basis. It is not an indication of future yield.
8. The Issuer has not has entered into any contracts outside of the ordinary course of business that have had or may reasonably be expected to have a material effect on its business or that could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Holders.
9. The Securities have been accepted for clearance through the X/N System, Euroclear and Clearstream, Luxembourg under the same common code as the Existing Securities, namely 018226715 and the same ISIN as the Existing Securities, namely BE0119284710.
10. This Prospectus shall be published on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu).
11. The *Luxemburger Wort* has changed its name into "*d'Wort*" and publications and notices can be made by all means of article 16 of the Luxembourg Law on Prospectuses for Securities (e.g.: website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).)

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**REGISTERED OFFICE OF  
THE ISSUER**

**KBC Bank NV**  
Havenlaan 2  
1080 Brussels  
Belgium

**REGISTERED OFFICE OF  
KBC HOLDING**

**KBC Group NV**  
Havenlaan 2  
1080 Brussels  
Belgium

**MANAGERS**

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**Lehman Brothers International (Europe)**  
25 Bank Street  
London E14 5LE  
United Kingdom

**KBC**  
Havenlaan 2  
1080 Brussels  
Belgium

**FISCAL AGENT AND CALCULATION AGENT**

**Kredietbank S.A. Luxembourgeoise**  
43, Boulevard Royal  
L-2955 Luxembourg  
Luxembourg

**PAYING AGENT**

**KBC Bank NV**  
Havenlaan 2  
1080 Brussels  
Belgium

**LEGAL ADVISERS**

*To the Issuer and KBC Holding  
as to English law:*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

*To the Managers  
as to English law:*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*To the Issuer and KBC Holding  
as to Belgian law:*

**Clifford Chance LLP**  
Avenue Louise 65, box 2  
1050 Brussels  
Belgium

*To the Managers  
as to Belgian law:*

**Linklaters LLP**  
Rue Brederode 13  
1000 Brussels  
Belgium

**AUDITORS TO THE ISSUER  
AND KBC HOLDING**

**Ernst & Young Bedrijfsrevisoren BCV**  
Marcel Thirylaan 204  
1200 Brussels  
Belgium

**LISTING AGENT AND  
LUXEMBOURG PAYING AGENT**

**Kredietbank S.A. Luxembourgeoise**  
43, Boulevard Royal  
L-2955 Luxembourg  
Luxembourg

