

RETAIL BASE PROSPECTUS



**KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V.**

**(KBC IFIMA N.V.)**

*(Incorporated with limited liability in The Netherlands)*

**Unconditionally and irrevocably guaranteed  
by KBC Bank NV**

*(Incorporated with limited liability in Belgium)*

**€15,000,000,000**

**Retail Euro Medium Term Note Programme**

*Arranger and Dealer*

**KBC Bank**

The date of this Base Prospectus is 27 June 2012.

Application has been made to the *Commission de Surveillance du Secteur Financier* in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of Article 5.4 of the Prospectus Directive (as defined herein). According to article 7 (7) of the Luxembourg Act dated 10<sup>th</sup> July, 2005, relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*), the *Commission de Surveillance du Secteur Financier* does not assume any responsibility as to the economical and financial soundness of the operation or the quality or solvency of the Issuer or the Guarantor. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of publication of this Base Prospectus to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange.



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**Retail Euro Medium Term Note Programme**

Under this €15,000,000,000 Euro Medium Term Note Programme (the "Programme"), KBC Internationale Financieringsmaatschappij N.V. (the "Issuer" or "KBC IFIMA N.V.") may from time to time issue notes that are guaranteed by the Guarantor (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This does not affect any Notes issued prior to the date of this Base Prospectus.

The payments and, where applicable, delivery of all amounts due in respect of the Notes will be guaranteed by KBC Bank NV (the "Guarantor") pursuant to a deed of guarantee dated 27 June 2012 as amended and/or supplemented and/or restated from time to time (the "Guarantee") executed by the Guarantor.

The maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed €15,000,000,000 (or its equivalent in other currencies).

The Notes may be issued on a continuing basis to the Dealer specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers").

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "CSSF") in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for the approval of this document as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive"). According to article 7 (7) of the Luxembourg Act dated 10th July, 2005, relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*), the *Commission de Surveillance du Secteur Financier* does not assume any responsibility as to the economical and financial soundness of the operation or the quality or solvency of the Issuer or the Guarantor. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of publication of this Base Prospectus to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and are intended to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in a final terms document (the "Final Terms") which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s). In the case of Notes which are (i) to be admitted to trading on a regulated market (as defined in the Prospectus Directive) of a European Economic Area Member State other than the regulated market of the Luxembourg Stock Exchange (a "Host Member State"); or (ii) offered to the public in a Host Member State, the Issuer will request that the CSSF delivers to the competent authority of the Host Member State a certificate of approval pursuant to Article 18 of the Prospectus Directive attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive and, if so required by the relevant Host Member State, a translation of the summary set out in this Base Prospectus. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes of each Tranche will initially be represented by a temporary global Note (a "Temporary Global Note") which will be delivered on or prior to the issue date thereof to a common safekeeper (the "Common Safekeeper") or a common depository (the "Common Depository"), as the case may be, in either case for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"), and/or any other agreed clearance system which will be exchangeable, as specified in the applicable Final Terms, for a permanent global Note (a "Permanent Global Note") upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A Permanent Global Note will be exchangeable for definitive Notes, either upon request or only upon the occurrence of an Exchange Event, all as further described in "Form of the Notes" below.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed or admitted to trading, as the case may be, on a stock exchange) a Supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended, (the "CRA Regulation") will be disclosed in the applicable Final Terms.

**Prospective purchasers of Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own circumstances and financial condition. Certain issues of Notes involve a high degree of risk and potential investors should be prepared to sustain a loss of all or part of their investment. It is the responsibility of prospective purchasers to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Issuer, the Guarantor or any Dealer in that regard. An investment in Notes linked to one or more Reference Items may entail significant risks not associated with investments in a conventional debt security. The Notes are principal protected, however, such protection is dependent on the Issuer performing its obligations with respect to the Notes. See "Risk Factors" below. In addition any applicable Final Terms may contain specific risk factors relating to the relevant issue of Notes.**

*Arranger and Dealer*  
**KBC Bank**

The date of this Base Prospectus is 27 June 2012.

The Notes have not been and will not be registered under the United States Securities Act 1933, as amended (the “Securities Act”), and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “*Subscription and Sale*” below).

All references in this document to “U.S. dollars” and “U.S.\$” refer to United States dollars, those to “£” and “Sterling” refer to pounds sterling, and those to “euro” or “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

All references in this document to “KBC Bank Group” refer to KBC Bank NV together with its subsidiaries and all references in this document to “Group” refer to KBC Group NV together with its subsidiaries.

This Base Prospectus constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

Each of the Issuer and the Guarantor (together the “Responsible Persons”) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

Any person (an “Investor”) intending to acquire or acquiring any Notes from any person (an “Offeror”) should be aware that, in the context of an offer to the public, the Issuer and the Guarantor will be responsible to the Investor for this Base Prospectus only if the Issuer has authorised that Offeror to make the offer to the Investor. Each Investor should therefore enquire whether the Offeror is so authorised by the Issuer. If the Offeror is not authorised by the Issuer, the Investor should check with the Offeror whether anyone is responsible for this Base Prospectus in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on this Base Prospectus and/or who is responsible for its contents it should take legal advice.

The Base Prospectus may only be used for the purposes for which it has been published. The only persons authorised to use this Base Prospectus in connection with an offer of Notes during any Offer Period (as specified in the relevant Final Terms) are the persons named in the applicable Final Terms as (i) the relevant Dealer or the Managers, (ii) the persons named in the applicable Final Terms as being Authorised Offerors and (iii) any further Offeror(s) (if any) specified on the website of the Guarantor and of such Offeror(s) as approved by the Issuer for this purpose at the relevant time, as the case may be (each such Offeror, an “Authorised Offeror”). The Issuer and the relevant Authorised Offeror(s) shall publish any new information regarding such Authorised Offeror(s) on the website of the Guarantor and such Authorised Offeror(s) at the relevant time.

Such authorisation from the Issuer may be the subject of conditions relating to, among other things, (i) the jurisdictions in which this Base Prospectus may be so used (the “Public Offer Jurisdictions”) and (ii) the relevant Offer Period. The Issuer’s and the Guarantor’s responsibility for the information contained in this Prospectus shall extend to any non-exempt offer by an Authorised Offeror in a Public Offer Jurisdiction during the relevant Offer Period.

Other than as set out above, the Issuer, the Guarantor, the Dealers and any Authorised Offerors have not authorised the making of any non-exempt offer by an Offeror in any other circumstances. Any such offers are not made on behalf of the Issuer, the Guarantor or any of the Dealers or Authorised Offerors and none of the Issuer, the Guarantor or any of the Dealers or Authorised Offerors makes any representation as to the compliance by the relevant Offeror with applicable conduct of business rules or other local regulatory requirements or other securities law requirements in relation to such offer. None of the Issuer or any of the Dealers or Authorised Offerors has any responsibility or liability for the actions of that Offeror.

**An Investor intending to acquire or acquiring any Notes from an Offeror will do so, and offers and sales of the Notes to an Investor by an Offeror will be made, in accordance with any terms and other arrangements in place between such Offeror and such Investor including as to price, allocations and settlement arrangements. The Issuer will not be a party to any such arrangements with Investors (other than any Dealers) in connection with the offer or sale of the securities and, accordingly, this Base Prospectus and any Final Terms will not contain such information and an Investor must obtain such information from the Offeror.**

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

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

To the fullest extent permitted by law, any Dealer appointed under the Programme from time to time does not accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Dealer or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. Each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to in this section) which it might otherwise have in respect of this Base Prospectus or any such statement. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer and the Guarantor under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Guarantor or any Dealer.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer, the Guarantor or any Dealer that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or of any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes constitutes an offer by or on behalf of the Issuer or the Guarantor or any Dealer to any person to subscribe for or to purchase any Notes.

The delivery of this Base Prospectus does not at any time imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers appointed under the Programme from time to

time expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme. Investors should review, *inter alia*, the documents incorporated herein by reference when deciding whether or not to purchase any Notes.

The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. In particular, this Base Prospectus has not been submitted for clearance to the *Autorité des marchés financiers*.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

The Issuer, the Guarantor and the Dealer(s) do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically intended to the contrary in the applicable Final Terms, no action has been taken by the Issuer, the Guarantor or any Dealer which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, France, the Netherlands, the Czech Republic, Hungary, the Slovak Republic and Spain (see “*Subscription and Sale*” below).

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes 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 Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, none of the Issuer, the Guarantor and any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. References in this paragraph to the “Prospectus Directive” mean Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State, and include any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

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

## SUMMARY OF THE PROGRAMME

The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Notes, in conjunction with the applicable Final Terms and, to the extent applicable, the Terms and Conditions of the Notes set out herein. Any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including any documents incorporated by reference, by any investor.

Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the claimant may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

### Information relating to the Issuer and the Guarantor

|                                   |  |
|-----------------------------------|--|
| <b>Issuer:</b>                    | KBC Internationale Financieringsmaatschappij N.V. (a wholly owned subsidiary of the Guarantor) incorporated in The Netherlands.  |
| <b>Business of the Issuer:</b>    | The Issuer assists in the financing of the activities of companies belonging to the KBC Bank Group.  |
| <b>Guarantor:</b>                 | KBC Bank NV (a wholly-owned subsidiary of KBC Group NV) incorporated in Belgium.   |
| <b>Business of the Guarantor:</b> | The Guarantor is a multi-channel bank whose core business is retail and private bancassurance. In its two home markets (Belgium and Central and Eastern Europe), the Guarantor has a very important and (in some cases) a leading position. In the rest of the world, the Guarantor has a selective presence in certain countries or areas.  |
| <b>Risk Factors:</b>              | <p>There are certain factors which may affect the Issuer's and/or the Guarantor's ability to fulfil their respective obligations under the Notes issued under the Programme. These include (i) risks relating to economic activity in the markets in which it operates and (ii) risks relating to its business activities, including credit risk, market risk, operational risk and liquidity risk.</p> <p>Notes may involve a high degree of risk.</p> <p>There are certain factors which are material for the purpose of assessing the risks associated with investing in any issue of Notes, which include, without limitation, the fact that Notes are unsecured obligations of the Issuer, that there may be a time lag between valuation and settlement in relation to a Note or potential conflicts of interest, that market disruptions or other events may occur in respect of the particular Reference Item(s)</p> |

to which the amounts payable and/or deliverable, as the case may be, in respect of the relevant Notes may relate, as specified in the applicable Final Terms, that there may be taxation risks, that there may be illiquidity of the Notes in the secondary market, that there may be the risk that performance of the Issuer's obligations under the Notes may become illegal, that there may be exchange rate risks and exchange controls and that the market value of the Notes may be affected by the creditworthiness of the Issuer and/or the Guarantor and a number of additional factors.

In addition, prospective investors in Reference Item Linked Notes (as defined on page 24) should understand the risks of transactions involving Reference Item Linked Notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such Reference Item Linked Notes in light of their particular financial circumstances, the information set forth herein and the information regarding the relevant Reference Item Linked Notes and the particular Reference Item(s) to which the value of, or payments in respect of, the relevant Reference Item Linked Notes may relate, as specified in the applicable Final Terms.

Where the applicable Final Terms specify one or more Reference Item(s), the relevant Notes will represent an investment linked to the performance of such Reference Item(s) and prospective investors should note that the return (if any) on their investment in the Notes will depend upon the performance of the relevant Reference Item(s). Potential investors in any such Notes should be aware that, even if Notes are principal protected, principal may still be at risk if the Issuer does not perform its obligations with respect to the Notes.

See "*Risks related to the structure of a particular issue of Notes*" in "*Risk Factors*".

**PROSPECTIVE INVESTORS MUST REVIEW THE APPLICABLE FINAL TERMS TO ASCERTAIN WHAT THE RELEVANT REFERENCE ITEM(S) ARE AND TO SEE HOW INTEREST PAYMENTS ARE DETERMINED AND WHEN ANY SUCH AMOUNTS ARE PAYABLE, BEFORE MAKING ANY DECISION TO PURCHASE ANY REFERENCE ITEM LINKED NOTES.**

## **Information relating to the Programme**

|                     |   |
|---------------------|---|
| <b>Description:</b> | Euro Medium Term Note Programme                           |
| <b>Arranger:</b>    | KBC Bank NV   |
| <b>Dealers:</b>     | KBC Bank NV and any additional Dealer appointed under the |

|   |   |
|---|---|
|   | Programme from time to time, which appointment may be for a specific issue or on an ongoing basis   |
| <b>Issuing, Listing and Principal Paying Agent:</b> | KBL European Private Bankers S.A.   |
| <b>Size:</b>  | Up to €15,000,000,000 (or its equivalent in other currencies). The Issuer and the Guarantor may also increase the amount of the Programme.  |
| <b>Distribution:</b>                                | Distribution by way of private or public placement and on a syndicated or non-syndicated basis.   |
| <b>Currencies:</b>                                  | Such currencies as may be specified in the applicable Final Terms.  |
| <b>Maturities:</b>                                  | Such maturities as may be specified in the applicable Final Terms.<br><br>However, Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) and so may only be issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “ <i>Subscription and Sale</i> ”.  |
| <b>Issue Price:</b>                                 | Notes may be issued on a fully paid basis and at an issue price which is at par or at a discount to, or premium over, par.  |
| <b>Form of Notes:</b>                               | The Notes will be issued in bearer form.  |
| <b>Terms of the Notes:</b>                          | Notes may be issued:<br><br>which bear interest at a fixed or floating rate or at a variable rate calculated by reference to one or more underlyings or bases of reference, including, but not limited to commodities, indices, commodity indices, equities, shares or units, inflation indices or more specified entities (each a “Reference Item). Notes may be issued which have a combination of the foregoing.<br><br>Interest periods, interest rates and the terms of and/or amounts payable or deliverable on redemption may differ depending on the Notes being issued and such terms will be specified in the applicable Final Terms.<br><br>Summary details of the terms of different types of Notes are provided below. Prospective investors should, however, review the “ <i>Terms and Conditions of the Notes</i> ” (the “Conditions”) and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes. |
| <b>Maximum/Minimum Rate of Interest:</b>            | If a Maximum Rate of Interest is specified, the maximum rate of interest that will be payable under the Notes will be provided in the applicable Final Terms and the rate of interest will be capped. If a Minimum Rate of Interest is specified, the minimum rate of   |

interest that will be payable under the Notes will be provided in the applicable Final Terms and the rate of interest will be floored.

If both a Maximum Rate of Interest and a Minimum Rate of Interest is specified, both the maximum and minimum rate of interest that will be payable under the Notes will be provided in the applicable Final Terms and the rate of interest will be subject to a collar.

**Interest Multiplier:**

If an Interest Multiplier (other than 100 per cent.) is specified, the rate of interest for an interest period will be multiplied by the specified percentage.

**Change of Interest/Payment Basis:**

Notes may be converted from one interest and/or payment basis to another if so provided in the applicable Final Terms.

**Index Linked Notes:**

Payments of interest in respect of such Notes will be made by reference to a single index or a basket of indices and/or such formula as specified in the applicable Final Terms or the Conditions.

If an Index Adjustment Event occurs, the Notes may be subject to adjustment, the index the subject of such an event may be substituted by a replacement index or the Issuer may redeem the Notes.

**Equity Linked Notes:**

Payments of interest in respect of such Notes will be calculated by reference to a basket of equity securities on such terms as specified in the applicable Final Terms or the Conditions.

If Potential Adjustment Events are specified as applying in the applicable Final Terms, upon the occurrence of the relevant event, the Notes may be subject to adjustment or the equity security the subject of such an event may be substituted by a replacement equity security.

If De-listing, Merger Event, Nationalisation and Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, upon the occurrence of the relevant event, the Notes may be subject to adjustment, the equity security the subject of such an event may be substituted by a replacement equity security or the Notes may be redeemed.

**Additional Disruption Events:**

The Notes will be subject to adjustment or may be redeemed upon the occurrence of any Additional Disruption Event specified as applying in the applicable Final Terms.

**Disrupted Days (Index Linked Notes and Equity Linked Notes only):**

The Calculation Agent may determine that a Disrupted Day has occurred or exists at a relevant time. Any such determination may have an effect on the value of the Notes and/or may delay settlement in respect of the Notes.

**Commodity Linked Notes:**

Payments of interest in respect of such Notes will be calculated by reference to a single commodity or commodity index or basket of commodities or commodity indices on such terms as

specified in the applicable Final Terms.

The Calculation Agent may determine that a Market Disruption Event applicable to such Notes has occurred or exists on a day that is a Pricing Date. In such circumstances, the Relevant Price for that Pricing Date will be determined in accordance with the first applicable Disruption Fallback that provides the Relevant Price or that provides for the early redemption of the Notes. The Market Disruption Events and Disruption Fallbacks which apply to an issue of Notes will either be set out in the applicable Final Terms or may be deemed to apply to the Notes as set out in the Conditions including, but not limited to, a delay in valuation or an early redemption of the Notes. Any postponement or alternative provisions for valuation may have an adverse effect on the value of the Notes.

**Inflation Linked Notes:**

Payments of interest in respect of such Notes will be made by reference to a single inflation index on such terms as specified in the applicable Final Terms.

If a Delay in Publication occurs, the Notes may be subject to adjustment or the inflation index the subject of such an event may be substituted by a replacement inflation index.

If a Cessation of Publication occurs, the Notes may be subject to adjustment or the inflation index the subject of such an event may be substituted by a replacement inflation index or the Notes may be redeemed.

If a Manifest Error in Publication occurs, the Notes may be subject to a determination and/or adjustment.

If a Rebasing occurs, the Notes may be subject to adjustment or the inflation index the subject of such an event may be substituted by the rebased inflation index.

If a Material Modification Prior to Relevant Payment Date occurs, the Notes may be subject to adjustment.

**Options and Variable Interest Payments:**

One or more of the following may apply to an issue of Notes: Rates Variance, Asian Option, Evolution of Basket of Underlying Equities, Evolution of Index, Evolution of Underlying Commodities, Digital Option or Maturity Coupon.

**Rates Variance:**

If Rates Variance is applicable, the rate of interest for an interest period will equal the positive difference of one rate and another plus or minus any applicable Margin.

**Asian Option:**

If Asian Option is applicable, the rate of interest for an interest period will equal the arithmetic mean of the value of the specified Reference Item, as determined on each specified valuation date, plus or minus any applicable Margin.

**Evolution of Basket of Underlying Equities:**

If Evolution of Basket of Underlying Equities is applicable, the rate of interest for an interest period will equal, the value of the Equity Basket at the valuation time specified in the applicable

Final Terms minus the value of the Equity Basket at the immediately preceding valuation time specified in the applicable Final Terms (the “Preceding Equity Basket Value”), divided by the Preceding Equity Basket Value, plus or minus any applicable Margin.

**Evolution of Index:**

If Evolution of Index is applicable, the rate of interest for an interest period will equal, the value of the Index at the valuation time specified in the applicable Final Terms minus the value of the Index at the immediately preceding valuation time specified in the applicable Final Terms (the “Preceding Index Value”), divided by the Preceding Index Value, plus or minus any applicable Margin.

**Evolution of Basket of Underlying Commodities:**

If Evolution of Basket of Underlying Commodities is applicable, the rate of interest for an interest period will equal, the value of the Commodity Basket at the valuation time specified in the applicable Final Terms minus the value of the Commodity Basket at the immediately preceding valuation time specified in the applicable Final Terms (the “Preceding Commodity Basket Value”), divided by the Preceding Commodity Basket Value, plus or minus any applicable Margin. Note, the Commodity Basket may contain an underlying commodity or a commodity index.

**Digital Option:**

If Digital Option is applicable, the Notes will accrue and pay interest at a specified rate in a given interest period if a Reference Item is equal to, and/or above or below, a specified threshold and otherwise at a different specified fall-back interest rate (which may be zero). Where the applicable Reference Item satisfies the specified threshold, the rate of interest may be calculated by reference to a different Reference Item.

**Maturity Coupon:**

If a Maturity Coupon is applicable, the Notes will pay an interest payment at the specified rate on the Maturity Date, if a Reference Item is above or below a specified threshold.

**Illegality:**

If the Calculation Agent determines that the performance of the Issuer’s obligations under a Series of Notes or, as the case may be, the Guarantor’s obligations under the Guarantee or that any arrangements made to hedge the Issuer’s position under such Notes has or will become unlawful, illegal, or otherwise prohibited in whole or in part, the Notes may be redeemed, as more fully set out under “*Terms and Conditions of the Notes*”.

**Redemption:**

The Notes will be redeemed at par. The applicable Final Terms will indicate whether the relevant Notes can be redeemed prior to their stated maturity, if applicable. In particular, the Notes may be redeemed prior to their stated maturity for taxation reasons or on an illegality or, if specified in the applicable Final Terms, following an Additional Disruption Event, or in the case of Index Linked Notes, following an Index Adjustment Event or, in the

case of Equity Linked Notes and if specified as applying in the applicable Final Terms, following a De-listing, Merger Event, Nationalisation and Insolvency and/or Tender Offer or, in the case of Inflation Linked Notes and if specified as applying in the applicable Final Terms, following the occurrence of an Inflation Index Cancellation pursuant to a Cessation of Publication. In such cases the Notes will redeem at the Early Redemption Amount as more fully set out under “*Terms and Conditions of the Notes*”.

Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Denomination of Notes:**

Such denominations as may be specified in the applicable Final Terms save that (i) the minimum denomination of each Note admitted to trading on an European Economic Area regulated market and/or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency; and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Taxation:**

If Condition 11(a) is specified as applicable in the applicable Final Terms, all payments will be made without deduction of withholding taxes imposed within The Netherlands (in the case of payments by the Issuer) or Belgium (in the case of the Guarantor) subject as provided in Condition 11(a). In the event that any such deduction is made, the Issuer or the Guarantor will be required to pay additional amounts.

If Condition 11(b) is specified as applicable in the applicable Final Terms, neither the Issuer nor the Guarantor shall be liable for any tax, duty, withholding or other payment which may arise (as described in Condition 11(b)) and all payments made by the Issuer or the Guarantor shall be made subject to any tax, duty,

withholding or other payment.

**Negative Pledge:**

The terms of the Notes will not contain a negative pledge.

**Cross Default:**

The terms of the Notes will not contain a cross-default provision in respect of either the Issuer or the Guarantor.

**Status of the Notes:**

The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer and *pari passu* without any preference among themselves except for obligations given priority by law. The Notes will be guaranteed by the Guarantor pursuant to the terms of the Guarantee.

**Listing and admission to trading:**

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of publication of this Base Prospectus to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges or markets.

**Governing Law:**

The Notes and the Guarantee will be governed by English law except that Condition 2(iii) of the Notes will be governed by Belgian law and Clause 6 of the Guarantee dealing with the status of the obligations of the Guarantor under the Guarantee will be governed by Belgian law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Notes. See "*Subscription and Sale*" below.

The Issuer is a Category 2 Issuer and the Notes will be issued in compliance with the TEFRA D Rules unless otherwise specified in the applicable Final Terms.

## **RISK FACTORS**

*Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

**THE PURCHASE OF NOTES MAY INVOLVE SUBSTANTIAL RISKS AND MAY BE SUITABLE ONLY FOR INVESTORS WHO HAVE THE KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS NECESSARY TO ENABLE THEM TO EVALUATE THE RISKS AND THE MERITS OF AN INVESTMENT IN THE NOTES. PRIOR TO MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY, IN LIGHT OF THEIR OWN FINANCIAL CIRCUMSTANCES AND INVESTMENT OBJECTIVES, (I) ALL THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS AND, IN PARTICULAR, THE CONSIDERATIONS SET FORTH BELOW AND (II) ALL THE INFORMATION SET FORTH IN THE APPLICABLE FINAL TERMS. PROSPECTIVE INVESTORS SHOULD MAKE SUCH ENQUIRIES AS THEY DEEM NECESSARY WITHOUT RELYING ON THE ISSUER, THE GUARANTOR OR ANY DEALER.**

**AN INVESTMENT IN NOTES LINKED TO ONE OR MORE REFERENCE ITEMS MAY ENTAIL SIGNIFICANT RISKS NOT ASSOCIATED WITH INVESTMENTS IN A CONVENTIONAL DEBT SECURITY, INCLUDING BUT NOT LIMITED TO THE RISKS SET OUT BELOW. THE NOTES ARE PRINCIPAL PROTECTED, HOWEVER, SUCH PROTECTION IS DEPENDENT ON THE ISSUER PERFORMING ITS OBLIGATIONS WITH RESPECT TO THE NOTES.**

**CERTAIN ISSUES OF NOTES INVOLVE A HIGH DEGREE OF RISK AND POTENTIAL INVESTORS SHOULD BE PREPARED TO SUSTAIN A LOSS OF ALL OR PART OF THEIR INVESTMENT.**

*Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in “Terms and Conditions of the Notes” below.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme**

The Issuer is a finance vehicle whose principal purpose is to raise debt to be on-lent to the Guarantor and other subsidiaries of the Guarantor. Accordingly, it does not have any trading assets and does not generate trading income. Notes issued under the Programme are guaranteed pursuant to the Guarantee. Accordingly, if the Guarantor’s financial condition were to deteriorate, the Issuer and investors in the Notes may suffer direct and materially adverse consequences.

The risk factors as set out below in respect of the Guarantor may also apply, directly and/or indirectly, to the Issuer, due to the interconnectedness of the credit risks of the Issuer and the Guarantor (since the Issuer is a fully owned subsidiary of the Guarantor) and due to the Guarantor itself guaranteeing the obligations of the Issuer under the Guarantee.

## **Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee**

### **Risks related to the market in which KBC Bank Group operates**

#### ***Current economic and market conditions pose significant challenges for KBC Bank Group and may adversely affect the results***

The global economy, the condition of the financial markets and adverse macro-economic developments can all significantly influence KBC Bank Group's performance. In recent years, the financial markets have experienced unprecedented levels of market volatility. The financial turbulence since 2008 and its after-effects on the wider economy have led to more difficult earnings conditions for the financial sector. During this period, numerous governments and central banks were forced into the role of lender of last resort as funding available to financial institutions from lenders and institutional investors was scarce and threatened the continued stability of the global financial system. The tightening of credit, increased market volatility and widespread reduction of business activity generally has adversely affected KBC's financial condition, results of operations, liquidity and access to capital and credit. While economic conditions have improved slightly and volatility has decreased from the unprecedented levels of early 2009, substantial market uncertainty and significant constraints on the credit system remain.

Furthermore, certain countries in Europe have relatively large sovereign debts or fiscal deficits, or both, which has led to tensions in the EU bond markets, the interbank lending market and to credit spread volatility during recent months. The peripheral crisis of 2010 has affected countries, such as Ireland, in which KBC Bank Group operates. There continues to be significant constraints on the availability of wholesale debt funding at reasonable cost, especially in Europe, as a result of the peripheral crisis, the broader political and economic environment and other factors.

Since KBC Bank Group currently conducts the majority of its business in Belgium, Ireland and Central and Eastern Europe, its performance is certainly 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. A weakening in these economies may in particular have a negative effect on KBC Bank Group's financial condition and results of operations. Moreover, any deterioration in current financial and credit market conditions could further adversely affect KBC Bank Group's business and, if they were to persist or worsen, could adversely affect the results of operations and financial condition of KBC Bank Group.

The losses and asset impairments resulting from the current economic situation forced many banks, including KBC Bank Group, to raise additional capital in order to maintain appropriate capital adequacy and solvency ratios. Nonetheless, KBC Bank and/or certain of its regulated subsidiaries may need to raise additional capital, either as a result of further asset impairments or other factors. Further infusions of additional equity capital, if necessary, may be difficult to achieve. Any failure by KBC Bank Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on operating results, financial condition and prospects.

General business and economic conditions that could affect KBC Bank Group include the level and volatility of short-term and long-term interest rates, inflation, employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial

markets, fluctuations in foreign exchange, the availability and cost of funding, investor confidence, credit spreads (e.g., corporate, sovereign), and the strength of the economies in which KBC Bank Group operates.

In addition, KBC Bank Group'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 in which KBC Bank Group does business and market interest rates at the time.

Market volatility can negatively affect KBC Bank Group's banking and asset management activities through a reduction in demand for products and services, a reduction in the value of assets held by KBC, a decline in the profitability of certain assets and a loss of liquidity in certain asset classes.

***Increased regulation of the financial services industry or changes thereto could have an adverse effect on KBC's operations***

The recent global economic downturn has resulted in calls for significant changes to regulatory regimes in the U.S., the European Union, Belgium and other countries. There have been significant regulatory developments in response to the global crisis, including various initiatives and measures taken at the level of the European Union or national governments, the stress test exercise coordinated by the European Banking Authority in cooperation with the European Central Bank, liquidity risk assessments on European and national level and the adoption of new regulatory capital requirements under Basel III and the Capital Adequacy Directive and Regulation, CRD IV. In addition, changes are also being further made to the International Financial Accounting Standards (IFRS). Although KBC Bank Group works closely with its regulators and continually monitors regulatory developments, there can be no assurance that additional regulatory or capital requirements will not have an adverse impact on KBC Bank Group, its business, financial condition or results of operations.

There can be no assurance that implementation of these new standards, or any other new regulation, will not require KBC Bank Group to issue securities that qualify as regulatory capital or to liquidate assets or curtail business, all of which may have adverse effects on its business, financial condition and results of operations.

KBC conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in Belgium and the other regions in which KBC does business. Changes in supervision and regulation, in particular in Belgium and Central & Eastern Europe (e.g. Hungary), could materially affect KBC Bank Group's business, the products and services offered by it or the value of its assets. In addition to the above, since the start of the global economic downturn, there seems to be an increase in the level of scrutiny applied by governments and regulators to enforce applicable regulations and calls to impose further charges on the financial services industry. There can be no assurance that such increased scrutiny or charges, will not require KBC Bank Group to take additional measures which, in turn, may have adverse effects on its business, financial condition and results of operations.

***Risk associated with the highly competitive environment in which KBC operates and which could intensify further as a result of the global market conditions***

As part of the financial services industry, KBC Bank Group faces substantial competitive pressures that could adversely affect the results of its operations in banking, insurance, asset management and other products and services.

In its Belgian home market, KBC Bank faces substantial competition, mainly from BNP Paribas Fortis, ING Group and Belfius Bank. In addition, KBC Bank faces increased competition in the Belgian savings market from smaller-scale banking competitors (and internet bank competitors) seeking to enlarge their respective

market shares by offering higher interest rates. In Central & Eastern Europe, KBC Bank Group faces competition from the regional banks in each of the jurisdictions in which it operates and from international competitors such as UniCredit, Erste Bank and Raiffeisen International. Competition is also affected by consumer demand, technological changes, regulatory actions and/or limitations and other factors. These competitive pressures could result in increased pricing pressures on a number of KBC Bank Group's products and services and in the loss of market share in one or more such markets.

***Risks associated with liquidity and funding, which are inherent to KBC's business, are aggravated by the current global market conditions***

The procurement of liquidity for KBC Bank Group's operations and access to long term financings are crucial to achieve KBC Bank Group's strategic goals, as they enable KBC Bank Group to meet payment obligations in cash and on delivery, scheduled or unscheduled, so as not to prejudice KBC Bank Group's activities or financial situation.

Although KBC Bank Group currently has a satisfactory liquidity position (with a diversified core deposit base and a large amount of liquid and/or pledgeable assets), its procurement of liquidity could be adversely impacted by the inability to access the debt market, sell products or reimburse financings as a result of the deterioration of market conditions, the lack of confidence in financial markets, uncertainties and speculations regarding the solvency of market participants, rating downgrades or operational problems of third parties. In addition thereto, KBC Bank Group's liquidity position could furthermore be adversely impacted by substantial outflows in deposits, asset management products and life insurance products.

Limitations of KBC Bank Group's ability to raise the required funds on terms which are favourable for KBC Bank Group, difficulties in obtaining long-term financings on terms which are favourable for KBC Bank Group or dealing with substantial outflows could adversely affect KBC Bank Group's business, financial condition and results of operations. In this respect, the adoption of new liquidity requirements under Basel III and CRD IV is also to be taken into account since these could give rise to an increased competition to attract the necessary deposits.

Furthermore, protracted market declines can reduce the liquidity of markets that are typically liquid. If, in the course of its activities, KBC Bank Group requires significant amounts of cash on short notice in excess of anticipated cash requirements, KBC Bank Group may have difficulty selling investments at attractive prices, in a timely manner, or both.

In response to the financial markets crisis and the reduced liquidity available, many market operators in the industry have to fall back on support from central banks and governments by pledging securities as collateral. Unavailability of liquidity through such measures, or the decrease or discontinuation of such measures could add to increased difficulties in procuring liquidity on the market and/or result in higher costs for the procurement of such liquidity when needed, thereby adversely affecting KBC Bank Group's business, financial condition and results of operations.

**Risks related to KBC Bank Group and its business**

***KBC Bank Group has significant credit default risk exposure***

As a large financial organisation, KBC Bank Group is subject to a wide range of general credit risks, including risks arising from changes in the credit quality and recoverability of loans and amounts due from counterparties. Third parties that owe KBC money, securities or other assets may not pay or perform under their obligations. These parties include, among others, borrowers under loans made by KBC Bank Group, the issuers whose securities KBC Bank Group holds, customers, trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, guarantors and

other financial intermediaries. These parties may default on their obligations to KBC Bank Group due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Credit institutions have witnessed a significant increase in default rates over the past few years as a result of worsening economic conditions. This increase in the scope and scale of defaults is evidenced by the significant increase in the amount of impaired loans in the portfolio of KBC Bank Group. This trend remains visible, particularly in Ireland and Hungary. In part of the Central Eastern European countries where KBC Bank Group is active in, credit is also granted in a currency other than the local currency. Changes in exchange rates between the local and such other currency can also have an impact on the credit quality of the borrower. Any further adverse changes in the credit quality of KBC Bank Group's borrowers, counterparties or other obligors could affect the recoverability and value of its assets and require an increase in KBC Bank Group's provision for bad and doubtful debts and other provisions. In addition to the credit quality of the borrower, adverse market conditions such as declining real estate prices negatively affect the results of KBC Bank Group's credit portfolio since these impact the recovery value of the collateral. All this could be further exacerbated in the case of a prolonged economic downturn or worsening market conditions.

KBC Bank Group's banking business makes provisions for loan losses which correspond to the provision for impairment losses in its income statement in order to maintain appropriate allowances for loan losses based on an assessment of prior loan loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. This determination is primarily based on KBC Bank Group's historical experience and judgment. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material adverse effect on KBC's business, results of operation or financial condition.

KBC Bank Group's principal credit risk exposure is to retail and corporate customers, including in its mortgage and real estate portfolio, as well as towards other financial institutions and sovereigns. As this credit risk reflects some concentration, particularly in Belgium, Ireland and certain Eastern European countries where it is active, KBC Bank Group's financial position is sensitive to a significant deterioration in credit and general economic conditions in these regions. Moreover, uncertainty regarding the euro-area, the risk of losses as a result of a country's or a credit institution's financial difficulties or a downgrade in its credit rating could have a significant impact on KBC Bank Group's credit exposure, loan provisioning, results of operation and financial position. In addition, concerns about, or a default by, one credit institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions are closely related as a result of their credit, trading, clearing and other relationships.

The events described above have and may continue to adversely affect KBC Bank Group's ability to engage in routine transactions as well as the performance of various loans and other assets it holds.

***KBC Bank Group is exposed to counterparty credit risk in derivative transactions***

KBC Bank Group executes a wide range of derivatives transactions, including interest rate, exchange rate, share/index prices, commodity and credit derivatives with counterparties in the financial services industry.

Operating in derivative financial instruments exposes KBC Bank Group to market risk and operational risk, as well as the risk that the counterparty defaults on its obligations or becomes insolvent prior to maturity when KBC Bank Group has an outstanding claim against that counterparty. Non-standardized or individually negotiated derivative transactions can make exiting, transferring or settling the position difficult.

Counterparty credit risk has increased due to recent volatility in the financial markets and may be further exacerbated if the collateral held by us cannot be realised or liquidated at a value that is sufficient to cover the full amount of the counterparty exposure.

***Changes in interest rates, which are caused by many factors beyond KBC Bank Group's control, can have significant adverse effects on its financial results***

Fluctuations in interest rates affect the returns KBC Bank Group earns on fixed interest investments. Interest rate changes also affect the market values of the amounts of capital gains or losses KBC Bank Group takes on and the fixed interest securities it holds. These fluctuations and changes affect KBC Bank Group's net interest income and recognised gains and losses on securities held in its investment portfolios.

The results of KBC Bank Group's banking operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. The composition of KBC Bank Group's banking assets and liabilities, and any gap position resulting from the composition, causes KBC Bank Group's banking operations' net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the repricing periods or between the different currencies in which KBC Bank Group holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of KBC Bank Group's banking businesses.

***KBC Bank Group is subject to foreign exchange risk***

KBC Bank Group pursues a prudent policy as regards its structural currency exposure, with a view to limit as much as possible currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio are however not generally hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill. Although KBC Bank Group pursues a prudent policy with regard to foreign exchange risk, there can still be a limited impact of this risk on the financial results of KBC Bank Group.

***KBC Bank Group's strategies for hedging against market risks may prove to be ineffective***

The most significant market risks KBC Bank Group 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 realized 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 Group's investment and trading portfolios.

KBC Bank Group uses a range of instruments and strategies to hedge against market risks. If these instruments and strategies prove ineffective or only partially effective, KBC Bank Group may suffer losses. Unforeseen market developments such as the development of government bonds of various countries that occurred in 2011 may significantly reduce the effectiveness of the measures taken by KBC Bank Group to hedge risks. Gains and losses from ineffective risk-hedging measures may heighten the volatility of the results achieved by KBC Bank Group and could therefore have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

***A downgrade in the credit rating of KBC Bank Group may limit access to certain markets and counterparties and may necessitate the posting of additional collateral to counterparties or exchanges***

The credit ratings of KBC Bank Group are important to maintaining access to key markets and trading counterparties. The major rating agencies regularly evaluate KBC Bank Group and its securities, and their ratings of debt and other securities are based on a number of factors, including financial strength as well as factors not entirely within the control of KBC Bank Group, including conditions affecting the financial services industry generally or the rating of the countries in which it operates. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that KBC Bank Group will maintain the current ratings.

KBC Bank Group's failure to maintain its credit ratings could adversely affect the competitive position, make entering into hedging transactions more difficult and increase borrowing costs or limit access to the capital markets or the ability of KBC Bank Group to engage in funding transactions at all. A further reduction in KBC Bank Group credit ratings also could have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical. In connection with certain trading agreements, KBC Bank Group may be required to provide additional collateral in the event of a credit ratings downgrade.

***KBC Bank Group is highly concentrated in and hence vulnerable to European sovereign exposure, in particular in its home country Belgium***

KBC Bank Group conducts the vast majority of its business in the European Union (as at 31 December 2011, approximately 94% of its business). Part of that business has led to an exposure by KBC Bank Group towards various countries in the European Union, including certain countries which have come under market pressure. Given the recent political, economical and financial developments in most of the European countries, KBC Bank Group incurs a risk that those countries will no longer be able to comply with the terms and conditions of their exposure vis-à-vis KBC Bank Group. If such sovereign risk would materialize, KBC Bank Group's business, financial condition and results of operation could be materially adversely affected. Exposure towards the PIIGS countries has been reduced and been replaced by a further increase in the exposure towards Belgian sovereign debt.

***KBC is exposed to potential losses stemming from structured products portfolios, including its ABS and CDO portfolios***

Structured credit activities of KBC Bank Group entities relate to ABSs and CDOs, which are defined as follows:

- ABS are bonds or notes backed by loans or accounts receivable originated by providers of credit, such as banks and credit card companies. Typically, the originator of the loans or accounts receivable transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.
- CDOs are a type of asset-backed security and a structured finance product in which a distinct legal entity, a Special Purpose Vehicle ("SPV"), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralized either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit-linked notes.

The claims issued against the collateral pool of assets are prioritized in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses

first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.

KBC Bank Group was active in the field of structured credits both as an originator and an investor. Since mid 2007, KBC Bank Group tightened its strategy. As an originator, KBC Bank Group also takes on other roles such as sponsor, when it provides liquidity support to the related SPVs. KBC Bank Group also invested in structured credit products. These investments appear on KBC Bank Group's balance sheet. The risks linked to these structured products portfolios may have an adverse effect on KBC Bank Group's business, financial condition and results of operation.

***Risks associated with the government support and the associated EU plan***

The acceptance of government support also includes the acceptance of related risks and obligations – KBC Bank Group's ability to successfully execute its strategic plan is not assured.

The acceptance of government support and the approval of these measures under European Union State Aid rules was subject to submission by the Belgian authorities of a restructuring plan for KBC Bank Group containing measures to safeguard its long-term viability and to ensure its capacity to repay within a reasonable timeframe the capital received. This restructuring plan was approved on November 18, 2009 and amended on 27 July 2011. Under the terms of such approval, the European Commission has imposed a range of conditions on KBC Bank Group, including divestment, conduct of business and other restrictions, some of which could materially impact KBC Bank Group or result in dilution for the existing shareholders of KBC Bank Group.

Approval by European Commission of the restructuring plan was also subject to the imposition of certain behavioural commitments imposed on KBC Bank Group, such as maintaining a minimum solvency ratio, respecting certain limitations on executive compensation, restrictions on acquisitions, and adhering to a price leadership ban subject to certain conditions. Furthermore, the acceptance of the government support has led to the supervision of the European Union and the presence of government representatives in the board of directors of KBC Bank Group which entails limits to the autonomy of KBC Bank Group.

Further, the strategic plan requires KBC Bank Group and its subsidiaries to engage in a restructuring according to the terms outlined in such plan, including the disposal and downsizing of a significant number of its businesses (see "*Description of the Guarantor – General description of activities of KBC Bank Group*" below). KBC Bank Group has implemented a range of initiatives to give effect to the plan, including some important steps to derisk aspects of the merchant banking business unit. Such divestments are obligatory, and, while the European Commission has permitted KBC Bank Group flexibility to avoid the need for conducting disposals at below book value prices, there can be no assurance that these divestments will be completed on favourable terms or at all and without any operational risk on behalf of KBC Bank Group. The completion of any proposed divestments may be subject to a range of conditions, including but not limited to regulatory approval and other actions beyond KBC Bank Group's control. A number of divestment initiatives are at a preliminary stage and there can be no assurance that any or all of the divestments will be completed within the envisioned timeframe, at the price or cost anticipated and without any impact on the profit (loss) of KBC Bank Group or at all. Additionally, there can be no assurance that the disposal of one or more of the businesses will not negatively impact KBC Bank Group's business, financial condition or results of operations in the future.

Risks related to the impact that the YES instruments and possibly the Belgian government's state guarantee could have on the profitability of an investment in KBC Bank Group shares and on the assets of KBC and the dilutive effects stemming from the exercise of the right to convert some of the YES instruments into KBC

ordinary shares or as a result of the issuance of KBC Bank Group ordinary shares triggered by loss claims under the Belgian State's guarantee scheme.

***While KBC Bank Group strictly manages its operational risks, these risks remain inherent to its businesses***

KBC Bank Group is exposed to many types of operational risks, including fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures and systems failure or non-availability. In addition, KBC Bank Group may also be subject to disruptions of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond KBC Bank Group's control (for example natural disasters, acts of terrorism, computer viruses, pandemics, transport or utility failures or external vendors not fulfilling their contractual obligations) which could give rise to losses in service to customers and to loss or liability to KBC Bank Group.

The operational risks that KBC Bank Group faces include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud. These events can potentially result in financial loss as well as harm to its reputation. Additionally, the loss of key personnel could adversely affect KBC Bank Group's operations and results.

KBC Bank Group attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks they do not eliminate them.

***KBC Bank Group's risk management policies, procedures and methods may leave it exposed to unidentified or unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities***

KBC Bank Group devotes significant resources to developing risk management policies and models, procedures and assessment methods for its banking and asset management businesses, KBC Bank Group applies both quantitative and qualitative methods to arrive at quantifications of risk exposures. These include a.o. value-at-risk ("VaR") models, back testing, Probability of Default ("PD") models, Loss Given Default ("LGD") models, asset valuation models and stress tests as well as risk assessment methods.

Nonetheless, such risk management techniques and strategies may not be fully effective in assessing risk exposure in all economic and market environments or against all types of risk, including risks that KBC Bank Group fails to identify or anticipate. Some of the models and metrics used are based upon observed historical behaviour as well as future predictions. Accordingly, the models used by KBC Bank Group may fail to predict or predict incorrectly future risk exposures and KBC Bank Group's losses could therefore be significantly greater than such measures would indicate. In addition, the risk management methods used by KBC Bank Group do not take all risks into account and could prove insufficient. If prices move in a way that KBC Bank Group's risk modelling has not anticipated, KBC Bank Group may experience significant losses. These failures can be exacerbated where other market participants are using models that are similar to those of KBC Bank Group. In certain cases, it may also be difficult to reduce risk positions due to the activity of other market participants or widespread market dislocations. Furthermore, other risk management methods depend on the evaluation of information regarding markets, customers or other publicly-available information. Such information may not always be accurate or up-to-date.

Accordingly, KBC Bank Group's losses could be significantly greater than such measures would indicate and unanticipated or incorrectly quantified risk exposures could result in material losses in KBC Bank Group's banking and asset management businesses.

***KBC Bank Group is exposed to the risk of breaches of compliance-related requirements in connection with the exercise of its business activity, such as provisions for limitation of money laundering***

The possibility of inadequate or erroneous internal and external work processes and systems, regulatory problems, breaches of compliance-related provisions in connection with the exercise of business activities, such as rules to prevent money laundering, human errors and deliberate legal violations such as fraud cannot be ruled out. KBC Bank Group endeavors to hedge such risks by implementing appropriate control processes tailored to its business and the market and regulatory environment in which it operates. Nevertheless, it is possible that these measures prove to be ineffective in relation to particular or all operational risks to which KBC Bank Group is exposed. Even though KBC Bank Group endeavors to insure itself against the most significant operational risks, it is not possible to obtain insurance cover for all the operational risks on commercially acceptable terms on the market. Should one, some or all of the risks described in this paragraph materialise, KBC Bank Group business, results of operations and financial condition could be materially adversely affected.

***Litigation or other proceedings or actions may adversely affect KBC Bank Group's business, financial condition and results of operations***

KBC Bank Group's business is subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. Given the complexity of the relevant circumstances and corporate transactions underlying these proceedings, together with the issues relating to the interpretation of applicable law, it is inherently difficult to estimate the potential liability related to such liability risks, to evaluate the outcome of such litigation or the time when such liability may materialize. Management makes estimates regarding the outcome of legal, regulatory and arbitration matters and creates provisions when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defenses and previous experience in similar cases or proceedings. Legal proceedings with remote or non quantifiable outcomes are not provided for and KBC Bank Group may be required to cover litigation losses which are not covered by such provision, including for example series of similar proceedings. As a result, there can be no assurance that provisions will be sufficient to fully cover the possible losses arising from litigation proceedings and KBC Bank Group cannot give any assurance that a negative outcome in one or more of such proceedings would not have a material adverse effect on KBC Bank Group's business, results of operations or financial condition.

Furthermore plaintiffs in legal proceedings may seek recovery of large or indeterminate amounts or other remedies that may affect KBC Bank Group's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. Also, the cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of its services, regardless of whether the allegations are valid or whether they are ultimately found liable.

As a result, litigation may adversely affect KBC's business, financial condition and results of operations.

***KBC Bank Group is exposed to risks on account of direct and indirect pension obligations***

KBC Bank Group has various direct and indirect pension obligations towards its current and former staff. These obligations therefore entail various risks which are similar to a.o. risks in a life insurance company and risks with a capital investment... Risks, however, may also arise due to changes in tax or other legislation,

and/or in judicial rulings as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

### **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

#### **The Notes may not be a suitable investment for all investors**

Each of the risks highlighted below could adversely affect the trading price of any Notes or the rights of investors under any Notes and, as a result, investors could lose some or all of their investment. Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer and/or the Guarantor may be unable to pay or deliver amounts on or in connection with any Notes for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all the information contained in the applicable Final Terms;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal and/or interest payable in one or more currencies, or where the currency for principal and/or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition an investment in Digital Option Notes, Equity Linked Notes, Index Linked Notes, Commodity Linked Notes, Inflation Linked Notes (each as defined below) or other Notes linked to one or more equity security, index, inflation index, commodity, commodity index, or debt security (each a "Reference Item"), may entail significant risks not associated with investments in a conventional debt security, including but not limited to, the risks set out in "*Risks related to the structure of a particular issue of Notes set out below*".

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

changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### **Risks related to the structure of a particular issue of Notes**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

### **Risks relating to Reference Item Linked Notes**

Equity Linked Notes, Index Linked Notes, Commodity Linked Notes and Inflation Linked Notes (each as defined below and together "Reference Item Linked Notes") involve a high degree of risk.

**The Notes are principal protected, however, such protection is dependent on the Issuer performing its obligations with respect to the Notes. In addition, the Notes are principal protected only at maturity. If the Notes redeem before their scheduled maturity, except in case of an Event of Default, they may return less than the principal protected amount or even zero. In the case of Reference Item Linked Notes which bear interest linked to one or more Reference Items, the amount of interest payable to Noteholders will be contingent on the performance of the relevant Reference Item(s) and on the structure of such Notes. Prospective investors in such Notes should note that, in certain circumstances, they may not receive any interest.**

Prospective investors in Reference Item Linked Notes should understand the risks of transactions involving Reference Item Linked Notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such Reference Item Linked Notes in light of their particular financial circumstances, the information set forth herein and the information regarding the relevant Reference Item Linked Notes and the particular Reference Item(s) to which the value of, or payments in respect of, the relevant Reference Item Linked Notes may relate, as specified in the applicable Final Terms.

As the amount of interest payable periodically or at maturity may be linked to the performance of the relevant Reference Item(s), an investor in a Reference Item Linked Note must generally be correct about the direction, timing and magnitude of an anticipated change in the value of the relevant Reference Item(s).

Where the applicable Final Terms specify one or more Reference Item(s), the relevant Reference Item Linked Notes will represent an investment linked to the economic performance of such Reference Item(s) and prospective investors should note that the return (if any) on their investment in Reference Item Linked Notes will depend upon the performance of such Reference Item(s). Potential investors should also note that whilst the market value of such Reference Item Linked Notes is linked to such Reference Item(s) and will be influenced (positively or negatively) by such Reference Item(s), any change may not be comparable and may be disproportionate. It is impossible to predict how the level of the relevant Reference Item(s) will vary over time. In contrast to a direct investment in the relevant Reference Item(s), Reference Item Linked Notes represent the right to receive payment, of periodic payments of interest (if specified in the applicable Final Terms) and/or an interest payment on the Maturity Date, all or some of which may be determined by reference to the performance of the relevant Reference Item(s). The applicable Final Terms will set out the provisions for the determination of interest payments.

**PROSPECTIVE INVESTORS MUST REVIEW THE APPLICABLE FINAL TERMS TO ASCERTAIN WHAT THE RELEVANT REFERENCE ITEM(S) ARE AND TO SEE HOW INTEREST PAYMENTS ARE DETERMINED AND WHEN ANY SUCH AMOUNTS ARE PAYABLE, BEFORE MAKING ANY DECISION TO PURCHASE ANY REFERENCE ITEM LINKED NOTES.**

The amount payable on early redemption of the Notes for example for taxation reasons, an illegality, or in the case of Index Linked Interest Note, an Equity Linked Interest Note, a Commodity Linked Interest Note or an Inflation Linked Interest Note, following certain market disruption events (as further described in the Terms and Conditions), will be an amount determined by the Calculation Agent in its discretion to be the fair market value of the Notes on the day of the early redemption including accrued interest (if any), but adjusted to fully account for losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any hedging and funding arrangements in relation to the Notes. The amount payable on such early redemption may be less than the nominal amount of the Notes, together with any accrued interest, and may in certain circumstances be zero.

Fluctuations in the value and/or volatility of the relevant Reference Item(s) may affect the value of the relevant Reference Item Linked Notes. Investors in Reference Item Linked Notes may risk losing their entire investment if the value of the relevant Reference Item(s) does not move in the anticipated direction.

There is no return on Reference Item Linked Notes other than the potential payment, of the relevant periodic interest payments and/or interest payment on maturity.

Other factors which may influence the market value of Reference Item Linked Notes include interest rates, potential dividend or interest payments (as applicable) in respect of the relevant Reference Item(s), changes in the method of calculating the level of the relevant Reference Item(s) from time to time and market expectations regarding the future performance of the relevant Reference Item(s), its composition and such Reference Item Linked Notes.

If any of the relevant Reference Item(s) is an index, the value of such Reference Item on any day will reflect the value of its constituents on such day. Changes in the composition of such Reference Item and factors (including those described above) which either affect or may affect the value of the constituents, will affect the value of such Reference Item and therefore may affect the return on an investment in Reference Item Linked Notes.

The Issuer may issue several issues of Reference Item Linked Notes relating to particular Reference Item(s). However, no assurance can be given that the Issuer will issue any Reference Item Linked Notes other than the Reference Item Linked Notes to which the applicable Final Terms relate. At any given time, the number of Reference Item Linked Notes outstanding may be substantial. Reference Item Linked Notes provide opportunities for investment and pose risks to investors as a result of fluctuations in the value of the Reference Item(s) to which such Reference Item Linked Notes relate.

### **Digital Option Notes**

Notes where a Digital Option is applicable will only accrue and pay interest in a given accrual period if the Reference Item is above or below a specified threshold. If the Reference Item for a given accrual period has not passed above or below such threshold, no interest may be payable in respect of that accrual period. The market values of such Notes is typically more volatile than market values of other conventional floating rate debt securities or other equivalent interest bearing debt securities linked to the same Reference Item and prospective investors in such Notes should note that, in certain circumstances, they may not receive any interest.

The rate of interest payable with respect to Notes where a Digital Option is applicable may also be determined by reference to a different Reference Item, and therefore by reference to factors different, to that used to determine whether interest is payable at all in relation to the same issue of Notes and the Notes may therefore fluctuate independently of such rate. This may result in the market value of such Notes falling even when the Reference Item which is referenced by the interest rate is rising.

## **Maturity Coupon**

Notes where a Maturity Coupon is applicable, will only pay an interest payment on the Maturity Date if a Reference Item is above or below a specified threshold. If the Reference Item has not passed above or below such threshold on the specified Valuation Date, no interest will be payable. The market values of such Notes is typically more volatile than market values of other conventional floating rate debt securities or other equivalent interest bearing debt securities linked to the same Reference Item and prospective investors in such Notes should note that, in certain circumstances, they may not receive any interest.

## **Equity Linked Notes**

The Issuer may issue Notes where the amount of interest payable is dependent upon the price of or changes or the average change in the price of an equity security or a basket of equity securities (“Equity Linked Interest Notes” or “Equity Linked Notes”).

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

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

If a Disrupted Day occurs, this may have an effect on the timing of valuation and consequently the value of the Notes and/or may delay any applicable interest payments in the case of Equity Linked Interest Notes. Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

If Potential Adjustment Events and/or De-listing, Merger Event, Nationalisation and Insolvency and/or Tender Offer is/are specified as applying in the applicable Final Terms, prospective purchasers should note that the Notes may be subject to either (A) adjustment by the Calculation Agent or (B) the substitution of the equity security the subject of such an event by a replacement equity security selected by the Calculation Agent, as further provided in Condition 8(a)(i), in the case of a Potential Adjustment Event, or Condition 8(a)(ii), in the case of a Delisting, Merger Event, Nationalisation or Insolvency and/or Tender Offer, or, in the case of a Delisting, Merger Event, Nationalisation or Insolvency and/or Tender Offer, the Issuer may also redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms. In respect of Equity Linked Notes relating to an equity security originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such equity security or equity securities is/are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, prospective purchasers should note that the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of the Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines in its sole and absolute discretion to be appropriate to preserve the economic terms of the Notes. Prospective purchasers should also note that the Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the relevant Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the relevant Valuation Time.

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

### **Index Linked Notes**

The Issuer may issue Notes where the amount of interest payable is dependent upon the level, or changes in the level, of an index or a basket of indices (“Index Linked Interest Notes” or “Index Linked Notes”).

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

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

If a Disrupted Day occurs, this may have an effect on the timing of valuation and consequently the value of the Notes and/or may delay any applicable interest payments in the case of Index Linked Interest Notes. Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

If an Index Adjustment Event (as defined in the “*Terms and Conditions of the Notes*” and relating to a relevant index modification, cancellation or disruption) occurs, prospective purchasers should note that the Issuer may either require the Calculation Agent to determine if such Index Adjustment Event has a material effect on the Notes and, if so, to either (A) calculate the Reference Price or (B) substitute the index the subject of such Index Adjustment Event with a replacement index, in each case as further provided in Condition 7(a)(ii)(a), or may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

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

### **Additional Disruption Events**

The Notes will either be subject to adjustment by the Calculation Agent or may be redeemed early upon the occurrence of any Additional Disruption Event specified as applying in the applicable Final Terms.

### **Commodity Linked Notes**

The Issuer may issue Notes where the amount of interest (“Commodity Linked Interest Notes” or “Commodity Linked Notes”) payable is dependent upon the price (or, as the case may be, level) of, or changes in, the price (or, as the case may be, level) of a commodity, a commodity index, a basket of commodities or a basket of commodity indices.

Potential investors in any such Notes should be aware that depending on the terms of the Commodity Linked Notes (i) they may receive no or a limited amount of interest and (ii) payment of interest may occur at a

different time than expected. In addition, the movements in the price (or, as the case may be, level) of the commodity, commodity index, basket of commodities or basket of commodity indices may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price (or, as the case may be, level) of the commodity, commodities, commodity index or commodity indices may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the price or prices (or, as the case may be, level or levels) of the commodities or commodity indices, the greater the effect on yield.

If the amount of interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the price (or, as the case may be, level) of the commodity, commodity index, commodities or commodity indices on interest payable will be magnified.

The market price of such Notes may be volatile and may depend on the time remaining to the redemption date and the volatility of the price (or, as the case may be, level) of the commodity, commodity index, commodities or commodity indices.

Commodity futures markets are highly volatile. Commodity markets are influenced by, among other things, changing supply and demand relationships, weather, governmental, agricultural, commercial and trade programmes and policies designed to influence commodity prices, world political and economic events, and changes in interest rates. Moreover, investments in futures and options contracts involve additional risks including, without limitation, leverage (margin is usually a percentage of the face value of the contract and exposure can be nearly unlimited). A holder of a futures position may find such position becomes illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits”. Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a holder from promptly liquidating unfavourable positions and subject it to substantial losses. Futures contract prices in various commodities occasionally have exceeded the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the liquidation of unfavourable positions and subject an investor in a Commodity Linked Note linked to such contract prices to substantial losses.

In relation to Commodity Linked Notes, if the Calculation Agent determines that a Market Disruption Event applicable to such Notes has occurred or exists on a day that is a Pricing Date, the Relevant Price for that Pricing Date will be determined in accordance with the first applicable Disruption Fallback that provides the Relevant Price or that provides for the early redemption of the Notes. The Market Disruption Events and Disruption Fallbacks which apply to an issue of Notes will either be set out in the applicable Final Terms or certain Market Disruption Events and Disruption Fallbacks may be deemed to apply to the Notes as set out in the Terms and Conditions of the Notes including, but not limited to, a delay in valuation or an early redemption of the Notes. Any postponement or alternative provisions for valuation may have an adverse effect on the value of the Notes. Prospective investors should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

The yield on Commodity Linked Notes linked to commodity futures contracts or commodity indices may not be perfectly correlated to the trend in the price of the underlying commodities as the use of such future commodity contracts generally involves a rolling mechanism. This means that the commodity futures contracts which expire prior to the relevant payment date under the relevant Notes are replaced with future commodity contracts that have a later expiry date. Investors may therefore only marginally benefit from any rise/fall in prices on such commodities.

Moreover, investors should consider that the commodity futures contracts could have a trend which differs significantly from that of the commodity spot markets. The trend in the price of a commodity futures contracts compared to the underlying commodity is closely linked to the present and future level of the production of the underlying commodity or to the level of estimated natural reserves, particularly in the case of energy linked products. In addition, the price of the relevant commodity futures contract may not be considered an accurate prediction of a market price, since it also includes the so-called carrying costs (such as, for example, warehouse costs, insurance covering the goods, etc.), which also contribute toward the determination of the price of the commodity futures contracts. These factors which directly influence the commodities prices substantially explain the imperfect correlation between the commodity spot markets and the commodity futures contracts.

### **Inflation Linked Notes**

The Issuer may issue Notes where the amount of interest (“Inflation Linked Interest Notes” or “Inflation Linked Notes”) payable is dependent upon the level, or changes in the level, of the inflation index specified.

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

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

Many economic and market factors may influence the value of Inflation Linked Notes including, *inter alia*:

- general economic, financial, political or regulatory conditions;
- fluctuations in the prices of various consumer goods and energy resources; and
- inflation and expectations concerning inflation.

Any such factors may either offset or magnify each other. If the Calculation Agent determines that the level of a relevant inflation index has not been published or announced by a specified Relevant Determination Date, then a Substituted Index Level for the relevant inflation index will be determined by reference either to the terms of any specified Related Bond or by reference to a formula as set out in the Terms and Conditions or as specified in the applicable Final Terms, as the case may be.

If the Calculation Agent determines that the level of an inflation index has not been published or announced by an Index Sponsor for two consecutive months or such other period as is specified in the applicable Final Terms and/or an Index Sponsor announces that it will no longer continue to publish or announce such inflation index, the Calculation Agent shall either (i) determine a Successor Index pursuant to the terms of any specified Related Bond or (ii) designate a “Successor Index” as the replacement inflation index specified by the relevant Index Sponsor or (iii) if no successor inflation index can be determined by reference to (i) or (ii) the Calculation Agent may determine the relevant Successor Index. In each case, the Calculation Agent may make such adjustment(s) to the terms of the Notes it deems necessary or appropriate to account for any such replacement. If the Calculation Agent determines that there is no appropriate alternative inflation index, the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

If the Calculation Agent determines that an inflation index has been or will be rebased at any time, it may make such adjustments to the levels of such inflation index (following the terms of any specified Related

Bond, where there is a Related Bond) so that such levels reflect the same rate of inflation as the inflation index before it was rebased and may make such adjustments to the terms of the Notes as it deems necessary.

If on or prior to a specified Relevant Determination Date, an Index Sponsor announces that it will make a material change to an inflation index, the Calculation Agent shall make appropriate adjustments to the terms of the Notes (consistent with any adjustments made to any Related Bond, where there is a Related Bond) to account for such change.

### **Illegality**

In the event that the Calculation Agent determines that the performance of the Issuer's obligations under a Series of Notes or, as the case may be, the Guarantor's obligations under the Guarantee or that any arrangements made to hedge the Issuer's obligations under such Notes has or will become unlawful, illegal or otherwise prohibited in whole or in part, the Issuer may redeem all, but not some only, of the Notes of such Series in accordance with the "*Terms and Conditions of the Notes*" below.

### **Variable rate Notes with a multiplier or other leverage factor**

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

### **Inverse Floating Rate Notes**

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

### **Notes where Maximum Rate of Interest applies**

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

### **Fixed/Floating Rate Notes**

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

### **Notes issued at a substantial discount or premium**

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-

bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### **Additional Risk Factors**

Additional risk factors in relation to specific issues of Notes may be included in the applicable Final Terms.

### **Certain considerations relating to public offers of Notes**

As described in the applicable Final Terms, Notes may be distributed by means of a public offer made during an offer period specified in the applicable Final Terms. During such offer period, the Issuer and/or any other person specified in the applicable Final Terms may reserve the right to cancel such offer and/or to scale back applications for such offer in the event of over-subscription. In such circumstances, an applicant investor may not be issued any Notes or may be issued a number of Notes which is less than the amount for which such applicant investor applied. Any payments made by an applicant investor or, in the case of public offers in Italy, any amount segregated by a distributor as intended payment of the offer price by an applicant investor, for Notes that are not issued to such applicant investor for any such reason will be refunded. However, there will be a time lag in making any reimbursement, no interest will be payable in respect of any such amounts and the applicant investor may be subject to reinvestment risk.

In addition, the Issuer and/or the other entities specified in the applicable Final Terms may terminate the offer early by immediate suspension of the acceptance of further subscription requests and by giving notice to the public in accordance with the applicable Final Terms. Any such termination may occur, even where the maximum amount for subscription in relation to that offer (as specified in the applicable Final Terms), has not been reached and, in such circumstances, the early closing of the offer may have an impact on the aggregate number of Notes issued and, therefore, may have an adverse effect on the liquidity of the relevant Notes.

Further, investors should note that, in certain circumstances, Notes may not be issued on the originally-designated issue date, for example because either the Issuer and/or any other person specified in the applicable Final Terms has reserved the right to postpone such issue date or, following the publication of a supplement to this Base Prospectus the Issuer has decided to postpone such issue date to allow investors who had made applications to subscribe for Notes before the date of publication of such supplement to exercise their right to withdraw their acceptances. In the event that the issue date is so delayed, no interest shall accrue (if applicable) until the issue date of the Notes and no compensation shall be payable.

### **General risks related to a particular issue of Notes**

#### **No Claim against any Reference Item**

A Note will not represent a claim against any Reference Item and, in the event that the amount paid on redemption of the Notes is less than the nominal amount of the Notes, a Noteholder will not have recourse under a Note to any Reference Item.

*An investment in Notes linked to one or more Reference Items may entail significant risks not associated with investments in conventional debt securities, including but not limited to the risks set out in this section “Risks related to the structure of a particular issues of Notes”. The amount paid by the Issuer on redemption of such Notes may be less than the principal amount of the Notes, together with any accrued interest, and may in certain circumstances be zero.*

#### **Hedging**

In the ordinary course of its business, including without limitation in connection with its market making activities, the Issuer and/or any of its affiliates may effect transactions for its own account or for the account

of its customers and hold long or short positions in the Reference Item(s) or related derivatives. In addition, in connection with the offering of the Notes, the Issuer and/or any of its affiliates may enter into one or more hedging transactions with respect to the Reference Item(s) or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and/or any of its affiliates, the Issuer and/or any of its affiliates may enter into transactions in the Reference Item(s) or related derivatives which may affect the market price, liquidity or value of the Notes and which could be adverse to the interests of the relevant Noteholders.

### **Conflicts of Interest**

Where the Issuer acts as Calculation Agent or the Calculation Agent is an affiliate of the Issuer, potential conflicts of interest may exist between the Calculation Agent and Noteholders.

The Calculation Agent is entitled to carry out a series of determinations which affect the Notes. Such determinations could have an adverse effect on the value of the Notes and on the amounts payable to investors under the Terms and Conditions of the Notes, whether in the case of an early redemption event or at maturity, giving rise to a potential conflict of interest in respect of the interests of the Noteholders.

Potential conflicts of interest may arise in connection with Notes that are offered to the public, as any distributors or other entities involved in the offer and/or the listing of such Notes as indicated in the applicable Final Terms, will act pursuant to a mandate granted by the Issuer and can receive commissions and/or fees on the basis of the services performed in relation to such offer and/or listing.

Any further risk factors relating to additional conflicts of interest with respect to a particular issue of the Notes will be specified in the applicable Final Terms.

The Issuer and any Dealer may at the date hereof or at any time hereafter, be in possession of information in relation to a Reference Item that is or may be material in the context of the Notes and may or may not be publicly available to Noteholders. Subject to any applicable laws and regulations, there is no obligation on the Issuer or any Dealer to disclose to Noteholders any such information.

The Issuer and/or any of its affiliates may have existing or future business relationships with any Reference Item(s) (including, but not limited to, lending, depositary, risk management, advisory and banking relationships), and will pursue actions and take steps that they or it deems necessary or appropriate to protect their and/or its interests arising therefrom without regard to the consequences for a Noteholder.

### **Risks related to Notes generally**

Set out below is a brief description of certain risks relating to the Notes generally:

#### **Modification, waivers and substitution**

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

The Terms and Conditions of the Notes also provide that the Agent and the Issuer may agree, without the consent of the Noteholders to any modification (subject to certain specific exceptions) of the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”) which is not prejudicial to the interests of the Noteholders or any modification of the Notes, the Coupons, the Agency Agreement, the Guarantee or the Deed of Covenant (as defined under “*Form of the Notes*”) which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to (or for the benefit of) certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld.

A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or a withholding system; a withholding system in the case of Switzerland) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

The European Commission has proposed certain amendments to the Savings Directive which may amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

## **EU Crisis Management Framework**

The European Commission has launched a (provisional) legislative proposal on crisis management in the financial sector on 6 June 2012, which includes a debt write-down tool in addition to other resolution tools. The debt write-down tool is meant to keep a stressed bank as a going concern or to fund the break-up of a failing bank by granting the power to the regulators to write down debt of the bank (or to convert such debt into equity). It is at this stage uncertain if the EU proposal will be adopted and if so, when and in what form. If the EU proposal were to be adopted, this could negatively affect the position of Noteholders.

## **Change of law**

The Notes will be governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

In addition, any relevant tax law or practice applicable as at the date of this Base Prospectus and/or the date of purchase or subscription of the Notes may change at any time (including during any subscription period or the term of the Notes). Any such change may have an adverse effect on a Noteholder, including that the Notes may be redeemed before their due date, their liquidity may decrease and/or the tax treatment of amounts payable or receivable by or to an affected Noteholder may be less than otherwise expected by such Noteholder.

### **Notes where denominations involve integral multiples: definitive Notes**

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **No taxation gross-up on certain issues of Notes**

If Condition 11(b) is specified as applicable in the applicable Final Terms, neither the Issuer nor the Guarantor shall be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, presentation and surrender for payment, or enforcement of any Note and all payments made by the Issuer or, as the case may be, the Guarantor shall be made subject to any tax, duty, withholding or other payment which may be required to be made, paid, withheld or deducted.

### **U.S. Foreign Account Tax Compliance Withholding**

The Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Notes issued or materially modified on or after 1 January 2013 and (ii) any Notes which are treated as equity for U.S. federal tax purposes, whenever issued, pursuant to the foreign account provisions (“FATCA”) of the Hiring Incentives to Restore Employment Act of 2010. This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (“FFI”) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (“IRS”) to provide certain information on its account holders (making the Issuer a “Participating FFI”), (ii) the Issuer has a positive “passthru percentage”, and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on such Notes is made is not a Participating FFI or otherwise exempt from FATCA withholding.

As at the date of this Base Prospectus, the regulations implementing FATCA have not yet been finalised. As a result, the application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Issuer, the Guarantor, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Noteholders of the Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

The application of FATCA to Notes issued or materially modified on or after 1 January 2013 (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a supplement to this Base Prospectus, as applicable.

**FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE NOTEHOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION**

## **OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.**

### **Taxation**

Potential purchasers and sellers of Notes should be aware that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Notes are transferred and/or any relevant assets are delivered.

Potential purchasers who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, potential purchasers should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.

### **Risks related to the market generally**

Set out below is a brief description of the principal market risks, including the impact of fees, liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### **Impact of fees, commissions and/or inducements on the Issue Price and/or offer price**

Investors should note that the issue price and/or offer price of any issue of Notes may include subscription fees, placement fees, direction fees, structuring fees and/or other additional costs. Any such fees and/or other commissions and inducements will be disclosed to investors in the applicable Final Terms. Any such fees may not be taken into account for the purposes of determining the price of such Notes on the secondary market and could result in a difference between the original issue price and/or offer price, the theoretical value of such Notes, and/or the actual bid/offer price quoted by any intermediary in the secondary market.

Any such difference may have an adverse effect on the value of Notes, particularly immediately following the offer and the issue date relating to such Notes, where any such fees and/or costs may be deducted from the price at which such Notes can be sold by the initial investor in the secondary market.

#### **The secondary market generally**

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and an investor may not be able to find a timely and/or suitable counterpart. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market or at prices higher than the relevant investor's initial investment. Investors seeking to liquidate/sell positions in the Notes prior to the stated maturity date may receive substantially less than their original purchase price. Therefore, in establishing their investment strategy, investors should ensure that the term of the Notes is in line with their future liquidity requirements. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. The liquidity of Notes is also influenced by whether or not the relevant Notes are exclusively offered to retail investors without any offer to institutional investors. To the extent that an issue of Notes is or becomes illiquid, investors may have to hold the relevant Notes until maturity before they are able to realise value.

The Issuer may, but is not obliged to, list an issue of Notes on a stock exchange or regulated market. If Notes are not listed or traded on any stock exchange or regulated market, pricing information for the relevant Notes

may be more difficult to obtain and the liquidity of such Notes may be adversely affected, and therefore the price of the Notes could be affected by their limited liquidity.

If Notes are not listed or traded on a stock exchange or regulated market, they may be traded on trading systems governed by the laws and regulations in force from time to time (e.g. multilateral trading systems or “MTF”) or in other trading systems (e.g. bilateral systems, or equivalent trading systems). In the event that trading in such Notes takes place outside any such stock exchange, regulated market or trading systems, the manner in which the price of such Notes is determined may be less transparent and the liquidity of such Notes may be adversely affected. Investors should note that the Issuer does not grant any warranty to Noteholders as to the methodologies used to determine the price of Notes which are traded outside a trading system, however, where the Issuer or any of its affiliates determines the price of such Notes, it will take into account the market parameters applicable at such time in accordance with applicable provisions of law. Even if Notes are listed and/or admitted to trading, this will not necessarily result in greater liquidity.

Each of the Issuer, the Guarantor and any Dealer may, but is not obliged to, at any time purchase Notes at any price in the open market or by tender or private agreement. Any Notes so purchased may be held or resold or surrendered for cancellation. If any Notes are redeemed in part, then the number of Notes outstanding will decrease, which will reduce liquidity for the outstanding Notes. Any such activities may have an adverse effect on the price of the relevant Notes in the secondary market and/or the existence of a secondary market.

Any Dealer or any of its affiliates may, but is not obliged to, be a market maker, liquidity provider, specialist or bid intermediary, for an issue of Notes. Even if a Dealer is a market-maker, liquidity provider, specialist or bid intermediary for an issue of Notes, the secondary market for such Notes may be limited and there is no assurance given as to the price offered by a market-maker, liquidity provider, specialist or bid intermediary or the impact of any such quoted prices on those available in the wider market and any such activities may be affected by legal restrictions in certain jurisdictions.

The appointment of an entity acting as a market maker, liquidity provider, specialist or bid intermediary with respect to the Notes, may, under certain circumstances, have a relevant impact on the price of the Notes in the secondary market.

There may be less liquidity in the secondary market for the Notes also if they are exclusively offered to retail investors without any offer to institutional investors.

If it is possible to sell Notes, they would be sold for the prevailing bid price in the market and may be subject to a transaction fee. The prevailing bid price may be affected by several factors including the performance of any relevant Reference Item, prevailing interest rates at the time of sale, the time remaining to the stated maturity date, the creditworthiness of the Issuer and factors affecting the capital markets generally. The introduction of additional or competing products in the market may also have a negative effect on the price of any Notes. It is therefore possible that an investor selling Notes in the secondary market may receive substantially less than their original purchase price.

### **Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “Investor’s Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency-equivalent yield on the Notes,

(2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

### **Interest rate risks**

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

### **Market Value of Notes**

The market value of an issue of Notes will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- (i) the value and volatility of the Reference Item(s);
- (ii) where the Reference Item(s) is/are equity securities, the dividend rate on the Reference Item(s) and the financial results and prospects of the issuer of each Reference Item;
- (iii) market interest and yield rates;
- (iv) fluctuations in exchange rates;
- (v) liquidity of the Notes or any Reference Item(s) in the secondary market;
- (vi) the time remaining to any redemption date or the maturity date;
- (vii) economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the stock exchange(s) on which any Reference Item may be traded.

The price at which a Noteholder will be able to sell any Notes prior to maturity may be at a discount, which could be substantial, to the market value of such Notes on the issue date, if, at such time, the market price of the Reference Item(s) is below, equal to or not sufficiently above the market price of the Reference Item(s) on the issue date. The historical market prices of any Reference Item should not be taken as an indication of such Reference Item's future performance during the term of any Note.

### **Credit ratings may not reflect all risks**

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

In general, European regulated investors are restricted under the CRA Regulation (as defined on the cover page of this Base Prospectus) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

**Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

**Prospective investors who consider purchasing any Notes should reach an investment decision only after carefully considering the suitability of such Notes in light of their particular circumstances.**

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CSSF, shall be incorporated in, and form part of, this Base Prospectus:

- (a) the audited non-consolidated annual financial statements of the Issuer for the financial years ended 31st December, 2010 and 31st December, 2011, together, in each case, with the related auditors' report;
- (b) the audited consolidated annual financial statements of the Guarantor for the financial years ended 31st December, 2010 and 31st December, 2011, together, in each case, with the related auditors' report; and
- (c) the Extended Quarterly Report 1Q2012 of KBC Group NV.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in a document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu) and from the registered office of the Issuer. This Base Prospectus will also be published on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu).

The Issuer and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Notes or any change in the condition of the Issuer which is material in the context of the Programme or the issue of any Notes, prepare and publish a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Notes. Furthermore, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material adverse change in the financial condition of the Issuer or the Guarantor which is not reflected in this Base Prospectus, the Issuer and the Guarantor will prepare a further supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new base prospectus will be prepared.

## Specific items contained in “Documents Incorporated by Reference”

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| <i>Audited non-consolidated annual financial statements of the Issuer for the financial year ended 31st December, 2011</i>                                    |                    |
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| <i>Audited non-consolidated annual financial statements of the Issuer for the financial year ended 31st December, 2010</i>                                    |                    |
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| <i>Audited consolidated annual financial statements of the Guarantor and its consolidated subsidiaries for the financial year ended 31st December, 2011 *</i> |                    |
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| <i>Audited consolidated annual financial statements of the Guarantor and its consolidated subsidiaries for the financial year ended 31st December, 2010 *</i> |                    |
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\* Page references are to the English language PDF version of the relevant incorporated documents.

Information contained in the documents incorporated by reference other than information listed in the table above is for informational purposes only.

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency (and having a minimum maturity of one month), subject as set out herein. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Base Prospectus and any supplement will only be valid for issuing Notes in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €15,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the euro equivalent of Commodity Linked Notes, Inflation Linked Notes, Equity Linked Notes and Index Linked Notes (each as specified in the applicable Final Terms in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes; and
- (c) the euro equivalent of Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note which will:

- (i) if the Global Notes (as defined under “*Terms and Conditions of the Notes*” below) are intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; and
- (ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to the Common Depository for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section “*Form of the Notes*” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Agent, and specified in the applicable Final Terms.

On and after the date (the “Exchange Date”) which is the later of (i) 40 days after the Temporary Global Note is issued and (ii) 40 days after the completion of the distribution of the relevant Tranche, as determined and notified by the Agent (the “Distribution Compliance Period”), interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein for interests in a Permanent Global Note of the same Series without interest coupons or talons against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless upon due certification, exchange of the Temporary Global Note for interests in the Permanent Global Note is improperly withheld or refused. Pursuant to the Agency Agreement the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification. Unless otherwise specified in the applicable Final Terms, a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (A) an Event of Default (as defined in Condition 13) has occurred and is continuing, or (B) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no

successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 17 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the dates of receipt of the first relevant notice by the Agent. Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all Notes which have an original maturity of 365 days or more and on all interest coupons relating to such Notes:

‘ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.’

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the times being of Euroclear or Clearstream, Luxembourg, as the case may be.

A Note may be accelerated automatically by the holder thereof in certain circumstances described in Condition 13. In such circumstances, where any Note is still represented by a Global Note (or any part thereof) and a holder of such Note so represented and credited to his securities account with Euroclear or Clearstream, Luxembourg gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such Global Note, such Global Note will become void at 8.00 pm (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the “Deed of Covenant”) dated 27 June 2012 as amended and/or supplemented and/or restated from time to time executed by the Issuer.

The following is the form of Final Terms which will be completed in relation to each Tranche of Notes (References to numbered Conditions are to the Terms and Conditions of the relevant Notes):

[Date]

## **FORM OF FINAL TERMS**

### **KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V. (KBC IFIMA N.V.)**

**(a limited liability company under Dutch law with its corporate seat at Rotterdam, The Netherlands)**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Public offer**

**Principal protected**

**Guaranteed by KBC Bank NV  
under the €15,000,000,000**

#### **Retail Euro Medium Term Note Programme**

The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes 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 the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so:

- (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 31 of Part A below, provided such person is one of the persons mentioned in Paragraph 31 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.

The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the “Conditions”) set forth in the base prospectus dated 27 June 2012, [ as supplemented by a supplement dated [●] ], the “Base Prospectus”, which constitutes a base prospectus for the purposes of Directive 2003/71/EC (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of a combination of these

Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplements are] is available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu) and the website of KBC at [www.kbc.com](http://www.kbc.com) and copies may be obtained during normal business hours at the registered office of the Issuer. A copy of the Final Terms will be available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).

*[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the “Conditions”) set forth in the base prospectus dated 27 June 2012 as supplemented from time to time which are incorporated by reference in the base prospectus dated 27 June 2012 [as supplemented by a supplement dated [●]], [the “Base Prospectus”, and are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and must be read in conjunction with the Base Prospectus dated 27 June 2012 which constitutes a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 27 June 2012. Copies of such Base Prospectus are available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu) and the website of KBC at [www.kbc.com](http://www.kbc.com) and copies may be obtained during normal business hours at the registered office of the Issuer. A copy of the Final Terms will be available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).]

*Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risk and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition. Prospective purchasers should conduct their own investigations and, in deciding whether or not to purchase Notes, prospective purchasers should form their own views of the merits of an investment related to the relevant underlying (interest rate, index, share, inflation rate, and/or commodity) based upon such investigations and not in reliance upon any information given in this document.*

*No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms, or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any Dealer.*

*By investing in the Notes each investor represents that:*

- (a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer, the Guarantor or any Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer, the Guarantor or any Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.*
- (b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and the risks of the investment in the Notes. It is also capable of assuming, and assumes, the risks of the investment in the Notes.*

(c) *Status of Parties. None of the Issuer, the Guarantor and any Dealer is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.*

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

- |   |   |  |
|---|---|--|
| 1 | (i) Series Number:                              | [●]  |
|   | (ii) Tranche Number:                            | [●]  |
|   |   | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i>  |
| 2 | Specified Currency or Currencies:               | [●]  |
| 3 | Aggregate Nominal Amount:                       |  |
|   | (i) Series:                                     | [●]  |
|   | (ii) Tranche:                                   | [●]  |
| 4 | Issue Price:                                    | [●] per cent., of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]  |
| 5 | (i) Specified Denominations:                    | [●]  |
|   | (ii) Calculation Amount:                        | [●]  |
|   |   | <i>(If only one Specified Denomination, insert the Specified Denomination.</i>   |
|   |   | <i>If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)</i>                           |
| 6 | (i) Issue Date:                                 | [●]  |
|   | (ii) Interest Commencement Date:                | [●]  |
| 7 | (i) Maturity Date:                              | [specify date]/[Interest Payment Date falling in [or nearest to] [specify month and year]/[[●] Business Days after the [final] Valuation Date, expected to be [●]] [(the “Scheduled Maturity Date”). |
|   | (ii) Business Day Convention for Maturity Date: | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ Not Applicable]   |
|   | (iii) Additional Business Centre(s):            | [●] <i>(please specify other financial centres required for the Business Day definition)</i>   |
| 8 | Interest Basis                                  | [Fixed Rate]<br>[Floating Rate]  |

- [Index Linked Interest]  
 [Equity Linked Interest]  
 [Inflation Linked Interest]  
 [Commodity Linked Interest]  
*(further particulars specified below)*
- 9 Redemption/Payment Basis: Redemption at par
- 10 Change of Interest Basis: *[Specify details of any provision for convertibility of Notes into another Interest Basis]*
- 11 Tax Gross-Up: [Condition 11(a) applicable]/[Condition 11(b) applicable]  
*(N.B. Only one of Condition 11(a) and 11(b) should be specified as applicable. If Condition 11(a) is specified as applicable, Condition 5(b) will be applicable. If Condition 11(b) is specified as applicable, Condition 5(b) will not be applicable)*
- 12 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 13 Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate[s] of Interest: [●] per cent. per annum  
 [Payable annually/semi-annually/quarterly/monthly in arrear]
- (ii) Interest Period End Date(s): [●] in each year, starting on [●], up to and including the [●]  
*(NB: This will need to be amended in the case of long or short coupons)*
- (iii) Business Day Convention for Interest Period End Dates: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (iv) Interest Payment Date(s): [[●] in each year, starting on [●], up to and including the Maturity Date]/[Interest Payment Dates will correspond to Interest Period End Dates]
- (v) Business Day Convention for Interest Payment Dates: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (vi) Additional Business Centre(s): [●] *(please specify other financial centres required for the Business Day definition)*
- (vii) Fixed Coupon Amount[s] per Calculation Amount: [●]  
*(Applicable to Notes in definitive form.)*
- (viii) Broken Amount[s] per Calculation Amount: [[●]payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]

*(Applicable to Notes in definitive form.)*

- (ix) Day Count Fraction: *(Specify one of the options listed below)*  
[Actual/Actual (ICMA)]  
[Actual/Actual] or [Actual/Actual (ISDA)]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
[30/360] or [360/360] or [Bond Basis]  
[30E/360] or [Eurobond Basis]  
30E/360 (ISDA)  
1/1  
*(see Condition 3 for alternatives)*
- (x) Determination Date(s): [●] in each year  
*(Insert regular Interest Period End Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*(NB: This will need to be amended in the case of regular Interest Period End Date, where Interest Periods are not of equal duration) (NB: Only relevant where Fixed Day Count Fraction is Actual/Actual (ICMA))*
- 14 Floating Rate Note Provisions [Applicable/Not Applicable]
- (i) Interest Period End Dates: [●]
- (ii) Business Day Convention for Interest Period End Dates: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (iii) Interest Payment Dates: [[●] in each year, starting on [●], up to and including the Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates]
- (iv) Business Day Convention for Interest Payment Dates: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (v) Additional Business Centre(s): [●] *(please specify other financial centres required for the Business Day definition)*
- (vi) Interest Variable Option: [Not Applicable]  
[Screen Rate Determination]  
[Rates Variance]  
[Asian Option – Interest Rates]  
[Digital Option]  
*(Depending on the applicable Interest Variable Option)*

*selected, insert the relevant variables within the corresponding paragraph below)*

- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Guarantor): (Give name and address)
- (viii) Interest Multiplier: [100] [●] per cent.
- (ix) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
  - Interest Determination Date(s): [●]  
*(The second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*
  - Relevant Screen Page: [●]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*
- (x) Rates Variance: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Rate<sub>1</sub>: [[●] per cent. per annum]  
[As determined in accordance with the following elections:
  - [Rate<sub>1</sub> Variable Option: [Screen Rate Determination
    - Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
    - Interest Determination Date(s): [●]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start*

*of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*

- Relevant Screen [●]  
Page: [Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR” (if CMS)  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*
- Rate<sub>2</sub>: [[●] per cent. per annum]  
[As determined in accordance with the following elections:
- [Rate<sub>2</sub> Variable Option: [Screen Rate Determination
  - Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
  - Interest Determination Date(s): [●]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*
- Relevant Screen [●]  
Page: [Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] (if CMS)  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*
- (xi) Asian Option – Interest Rates: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
  - n: [●]
  - Rate<sub>i</sub>: As determined in accordance with the following elections:
  - [Rate<sub>i</sub> Variable Option: [Screen Rate Determination
    - Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
    - Interest Determination Dates(s):

|                    |     |
|--------------------|-----|
| Rate <sub>t1</sub> | [•] |
| Rate <sub>t2</sub> | [•] |
| Rate <sub>t3</sub> | [•] |
| Rate <sub>tn</sub> | [•] |

*(Insert the different Interest Determination Date(s) for the purpose of determining each Rate<sub>i</sub>)*

- Relevant Screen Page: [•]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*
- (xii) Digital Option: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph. If applicable, insert the relevant variables within the corresponding paragraph below)*
  - Digital Option Type: Interest Rates
  - Digital Option Payment Condition: [Greater Than]  
[Equal To]  
[Less Than]  
[Greater Than Or Equal To]  
[Less Than Or Equal To]
  - Digital Option Variable: Interest Rates
  - Digital Option Variable Interest Determination Method: Screen Rate Determination
  - Reference Rate: [•]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
  - Interest Determination Date(s): [•]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt ) prior to the start of each Interest Period if CMS)*
  - Relevant Screen Page: [•]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*

*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*

- Digital Option Strike: [●] per cent.
- Digital Option Exercised Rate: [[●] per cent. per annum]  
[As determined in accordance with the Conditions]
- Digital Option Payment Determination Method: [Not Applicable]  
[Screen Rate Determination]  
[Collar Rate]
- Digital Option Fallback Rate: [zero]  
[[●] per cent. per annum]  
[Collar Rate]

*(If Screen Rate Determination and/or Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*

- Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
- Interest Determination Date(s): [●]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*
- Relevant Screen Page: [●]

[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*

*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*

*(If Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*

- Cap Rate: [●]
- Floor Rate: [●]
- Collar Margin: [+/-] [●] per cent. per annum
- (xiii) Margin(s): [+/-] [●] per cent. per annum
- (xiv) Minimum Rate of Interest: [●] per cent. per annum

- (xv) Maximum Rate of Interest: [●] per cent. per annum  
*(With respect to any Interest Period, insert (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest and (iii) Minimum Rate of Interest and Maximum Rate of Interest to collar the Rate of Interest)*
- (xvi) Day Count Fraction: *(Specify one of the options listed below)*  
 [[Actual/Actual] or [Actual/Actual (ISDA)]  
 Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 [30/360] or [360/360] or [Bond Basis]  
 [30E/360] or [Eurobond Basis]  
 30E/360 (ISDA)  
 1/1]  
*(see Condition 3 for alternatives)*
- 14 Index Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Interest Variable Option: [Not Applicable]  
 [Evolution of Index]  
 [Asian Option – Index]  
 [Digital Option]  
*(Depending on the applicable Interest Variable Option selected, insert the relevant variables within the corresponding paragraph below)*
- (i) Whether the Notes relate to a basket of indices or a single index, the identity of the relevant Index/Indices and details of the relevant sponsors: *(Give or annex details)*
- (ii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 7: *[Give name and address]*
- (iii) Interest Period End Dates: [●]
- (iv) Business Day Convention for Interest Period End Dates: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (v) Interest Payment Dates: [[●] in each year, starting on [●], up to and including the Maturity Date]/[Interest Payment Dates will correspond to

|  |  |
|--|--|
|  | Interest Period End Dates]   |
| (vi) Business Day Convention for Interest Payment Dates: | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>specify other</i> /Not Applicable]   |
| (vii) Additional Business Centre(s):                     | [●] ( <i>please specify other financial centres required for the Business Day definition</i> )   |
| (viii) Interest Multiplier:                              | [100] [●] per cent.  |
| (ix) Margin:   | [+/-] [●] per cent. per annum  |
| (x) Minimum Rate of Interest:                            | [●] per cent. per annum  |
| (xi) Maximum Rate of Interest:                           | [●] per cent. per annum<br><i>(With respect to any Interest Period, insert (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest and (iii) Minimum Rate of Interest and Maximum Rate of Interest to collar the Rate of Interest)</i>         |
| (xii) Day Count Fraction:                                | <i>(Specify one of the options listed below)</i><br>[[Actual/Actual] or [Actual/Actual (ISDA)]<br>Actual/365 (Fixed)<br>Actual/365 (Sterling)<br>Actual/360<br>[30/360] or [360/360] or [Bond Basis]<br>[30E/360] or [Eurobond Basis]<br>30E/360 (ISDA)<br>1/1]<br><i>(see Condition 3 for alternatives)</i> |
| (xiii) Exchange(s):                                      | [●]  |
| (xiv) Related Exchange(s):                               | [All Exchanges]  |
| (xv) Valuation Date(s):                                  | [●]<br><i>(Where Evolution of Index is specified to be applicable in paragraph (xxiv) below, specify the Valuation Dates in respect of each Interest Period)</i>   |
| (xvi) Valuation Time:                                    | [Condition 7(b) applies/ <i>other</i> ]  |
| (xvii) Strike Price:                                     | [●]  |
| (xviii) Multiplier for each Index comprising the basket: | [Insert details/Not Applicable]  |
| (xix) Correction of Index Levels:                        | Correction of Index Levels [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].   |
| (xx) Correction Cut-Off Date:                            | [●] Business Days prior to each Interest Payment Date/Not Applicable.  |

- (xxi) Trade Date: [•]
- (xxii) Evolution of Index: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Index<sub>initial</sub>: [•]  
*(Insert the initial Index level)*
- (xxiii) Asian Option – Index: [Applicable/Not Applicable]
- Index<sub>initial</sub>: [•]  
*(Insert the initial Index price)*
- n: [•]
- Index<sub>t</sub>: As determined in accordance with the following elections:
- Index<sub>t</sub> Valuation Dates:
- |                     |     |
|---------------------|-----|
| Index <sub>t1</sub> | [•] |
| Index <sub>t2</sub> | [•] |
| Index <sub>t3</sub> | [•] |
| Index <sub>tn</sub> | [•] |
- (Insert the different Valuation Dates for the purpose of determining each Index<sub>t</sub>)*
- (xxiv) Digital Option: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph. If applicable, insert the relevant variables within the corresponding paragraph below)*
- Digital Option Type: Index
- Digital Option Payment Condition: [Greater Than]  
 [Equal To]  
 [Less Than]  
 [Greater Than Or Equal To]  
 [Less Than Or Equal To]
- Digital Option Variable: Index
- Digital Option Strike: [•]  
*(Insert relevant level)*
- Digital Option Exercised Rate: [[•] per cent. per annum]  
 [As determined in accordance with the Conditions]
- Digital Option Payment Determination Method: [Not applicable]  
 [Screen Rate Determination]  
 [Collar Rate]  
*(or other determination method if a Prospectus is not required for the purposes of the Prospectus Directive)*
- Digital Option Fallback Rate: [zero]

|       |  |  |
|-------|--|--|
|       |  | [[●] per cent. per annum]  |
|       |  | [Collar Rate]  |
|       |  | <i>(If Screen Rate Determination and/or Collar Rate applies, insert relevant information for determining Digital Option Variable or Fallback Rate)</i>   |
|       | – Reference Rate:                      | [●]<br><i>(Insert relevant LIBOR, EURIBOR or CMS rate)</i>   |
|       | – Interest Determination Date(s):      | [●]<br><i>(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)</i> |
|       | – Relevant Screen Page:                | [●]<br>[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] <i>(if CMS)</i><br><i>(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)</i><br><i>(If Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)</i>   |
|       | – Cap Rate:                            | [●]  |
|       | – Floor Rate:                          | [●]  |
|       | – Collar Margin:                       | [+/-] [●] per cent. per annum  |
| (xxv) | Maturity Coupon:                       | [Applicable][Not Applicable]<br><i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>   |
|       | – Maturity Coupon Type:                | [Call Performance]/[Put Performance]   |
|       | – Valuation Date:                      | [●]  |
|       | – Strike Price:                        | [●]  |
| 1f    | Equity Linked Interest Note Provisions | [Applicable/Not Applicable]<br><i>(If not applicable, delete remaining sub-paragraphs of this paragraph)</i>   |
| (i)   | Interest Variable Option:              | [Not Applicable]<br>[Evolution of Basket of Underlying Equities]<br>[Asian Option - Basket of Underlying Equities]   |

[Digital Option]

*(Depending on the applicable Interest Variable Option selected, insert the relevant variables within the corresponding paragraph below)*

- (ii) The identity of the relevant Equity Issuer(s) of the equity securities in the basket: [Give or annex details of the relevant Underlying Equities]
- (iii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 8: [Give name and address]
- (iv) Interest Period End Dates: [●]
- (v) Business Day Convention for Interest Period End Dates: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (vi) Interest Payment Dates: [[●] in each year starting on [●], up to and including the Maturity Date]/[Interest Payment Dates will correspond to Interest Period End Dates]
- (vii) Business Day Convention for Interest Payment Dates: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ Not Applicable]
- (viii) Additional Business Centre(s): [●] *(please specify other financial centres required for the Business Day definition)*
- (ix) Interest Multiplier: [100][●] per cent.
- (x) Margin: [+/-] [●] per cent. per annum
- (xi) Minimum Rate of Interest: [●]
- (xii) Maximum Rate of Interest: [●]
- (With respect to any Interest Period, insert (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest and (iii) Minimum Rate of Interest and Maximum Rate of Interest to collar the Rate of Interest)*
- (xiii) Day Count Fraction: *(Specify one of the options listed below)*  
[[Actual/Actual] or [Actual/Actual (ISDA)]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
[30/360] or [360/360] or [Bond Basis]  
[30E/360] or [Eurobond Basis]  
30E/360 (ISDA)  
1/1]

|   |  |
|---|--|
|   | <i>(see Condition 3 for alternatives)</i>  |
| (xiv) Exchange(s):  | [•]  |
| (xv) Related Exchange(s):   | [All Exchanges]  |
| (xvi) Potential Adjustment Events:  | [Applicable/Not Applicable]  |
| (xvii) De-listing, Merger Event,<br>Nationalisation and Insolvency:   | [Applicable/Not Applicable]  |
| (xviii) Tender Offer:   | [Applicable/Not Applicable]  |
| (xix) Reference Price:  | [•]  |
| (xx) Valuation Date(s):   | [•]  |
|   | <i>(Where Evolution of Basket of Underlying Equities is specified to be applicable in paragraph (xxix) below, specify the Valuation Dates in respect of each Interest Period)</i>  |
| (xxi) Valuation Time:   | [Condition 8(b) applies/other]   |
| (xxii) Strike Price:  | [•]  |
| (xxiii) Exchange Rate:  | [Applicable/Not Applicable]  |
|   | <i>[Insert details]</i>  |
| (xxiv) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 8(a)): | <i>[Insert details/Not Applicable]</i>   |
| (xxv) Correction of Share Prices:   | Correction of Share Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].   |
| (xxvi) Correction Cut-Off Date:   | [[•] Business Days prior to each Interest Payment Date/Not Applicable.]  |
| (xxvii) Trade Date:   | [•]  |
| (xxviii) Other terms or special conditions:   | [•] [Not Applicable]   |
|   | <i>(If any other terms or special conditions are applicable, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive and article 13 of the Luxembourg Act dated 10th July 2005 relating to prospectuses for securities)</i> |
| (xxix) Evolution of Basket of Underlying Equities:  | [Applicable/Not Applicable]  |
|   | <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>   |
| – EquityBasket <sub>initial</sub> :   | [•]  |
|   | <i>(Insert the initial EquityBasket price)</i>   |
| (xxx) Asian Option – Basket of Underlying Equities:   | [Applicable/Not Applicable]  |
|   | <i>(If not applicable, delete the remaining subparagraphs of this</i>  |

paragraph)

- EquityBasket<sub>initial</sub>: [●]  
(Insert the initial EquityBasket price)
- n: [●]
- EquityBasket<sub>t</sub>: As determined in accordance with the following elections:
- EquityBasket<sub>t</sub> Valuation Dates:

|                            |     |
|----------------------------|-----|
| EquityBasket <sub>t1</sub> | [●] |
| EquityBasket <sub>t2</sub> | [●] |
| EquityBasket <sub>t3</sub> | [●] |
| EquityBasket <sub>tn</sub> | [●] |

(Insert the different Valuation Dates for the purpose of determining each EquityBasket<sub>t</sub>)

- (xxxi) Digital Option: [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph. If applicable, insert the relevant variables within the corresponding paragraph below)
  - Digital Option Type: Basket of Underlying Equities
  - Digital Option Payment Condition:
    - [Greater Than]
    - [Equal To]
    - [Less Than]
    - [Greater Than Or Equal To]
    - [Less Than Or Equal To]
  - Digital Option Variable: Basket of Underlying Equities
  - Digital Option Strike: [●]  
(Insert relevant price)
  - Digital Option Exercised Rate:
    - [[●] per cent. per annum]
    - [As determined in accordance with the Conditions]
  - Digital Option Payment Determination Method:
    - [Not applicable]
    - [Screen Rate Determination]
    - [Collar Rate]
    - (or other determination method if a Prospectus is not required for the purposes of the Prospectus Directive)
  - Digital Option Fallback Rate:
    - [zero]
    - [[●] per cent. per annum]
    - [Collar Rate]
    - (If Screen Rate Determination and/or Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)
  - Reference Rate: [●]  
(Insert relevant LIBOR, EURIBOR or CMS rate)

- Interest Determination Date(s): [●]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*
- Relevant Screen Page: [●]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*  
*(If Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*
- Cap Rate: [●]
- Floor Rate: [●]
- Collar Margin: [+/-] [●] per cent. per annum
- (xxxii) Maturity Coupon: [Applicable][Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Maturity Coupon Type: [Call Performance]/[Put Performance]
- Valuation Date: [●]
- Strike Price: [●]
- 17 Commodity Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Variable Option: [Evolution of Basket of Underlying Commodities]  
[Asian Option - Basket of Underlying Commodities]  
[Digital Option]  
*(Depending on the applicable Interest Variable Option selected, insert the relevant variables within the corresponding paragraph below)*
- (ii) Relevant Commodity, Commodity Index, Commodities or Commodity Indices: [●] [which is a Bullion Commodity]

- (iii) Calculation Agent responsible for: *(Give name and address)*  
calculating the Rate(s) of Interest  
and Interest Amount(s):
- (iv) Interest Period End Dates: [●]
- (v) Business Day Convention for [Floating Rate Convention/Following Business Day  
Interest Period End Dates: Convention/Modified Following Business Day  
Convention/Preceding Business Day Convention/Not  
Applicable]
- (vi) Interest Payment Dates: [[●] in each year, starting on [●], up to and including the  
Maturity Date]/[Interest Payment Dates will correspond to  
Interest Period End Dates]
- (vii) Business Day Convention for [Following Business Day Convention/Modified Following  
Interest Payment Dates: Business Day Convention/Preceding Business Day  
Convention/ Not Applicable]
- (viii) Additional Business Centre(s): [●] *(please specify other financial centres required for the  
Business Day definition)*
- (ix) Margin: [+/-] [●] per cent. per annum
- (x) Minimum Rate of Interest: [●]
- (xi) Maximum Rate of Interest: [●]
- (xii) Day Count Fraction: *(Specify one of the options listed below)*  
[[Actual/Actual] or [Actual/Actual (ISDA)]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
[30/360] or [360/360] or [Bond Basis]  
[30E/360] or [Eurobond Basis]  
30E/360 (ISDA)  
1/1]  
*(see Condition 3 for alternatives)*
- (xiii) Pricing Date(s): [●]
- (xiv) Commodity Business Day [Following/Modified Following/Nearest/Preceding]  
Convention:
- (xv) Common Pricing: [Applicable/Not Applicable]  
*(N.B. Only applicable in relation to Notes linked to a basket  
of Commodities)*
- (xvi) Commodity Business Day: [Specify/The definition in Condition 6 applies]
- (xvii) Commodity Reference Price and [●]  
any other provisions relating to the  
Relevant Price:
- (xviii) Specified Price: [high price] [low price] [average of high and low prices]  
[closing price] [opening price] [bid price] [asked price]

- [average of bid and asked prices] [settlement price] [official settlement price] [official price] [morning fixing] [afternoon fixing] [spot price] [other] [*insert time, if applicable*]
- (xix) Delivery Date: [date][month and year][[First/Second/Third/other] Nearby Month] [*specify method*]
- (xx) Unit: [●]
- (xxi) Price Source: [●]
- (xxii) Exchange(s): The relevant Exchange [s] [is/are] [●].
- (xxiii) Market Disruption Event(s): [The following Market Disruption Events apply to the Notes:  
 [Price Source Disruption]  
 [Trading Disruption: *specify any additional futures/options contract commodity*]  
 [Disappearance of Commodity Reference Price]  
 [Material Change in Formula]  
 [Material Change in Content]  
 [Tax Disruption]]  
*(N.B. Only applicable to Commodities)*  
 [Condition 6 applies]  
*(NB: if Condition 6 applies, the Market Disruption Events specified in that Condition will apply)*  
 [*Specify other*]
- (xxiv) Disruption Fallback(s): [The following Disruption Fallbacks apply to the Notes (in the following order):  
 [Fallback Reference Dealers: *specify alternate Commodity Reference Price*]  
 [Fallback Reference Price]  
 [Cancellation]  
 [Postponement]  
 [Calculation Agent Determination]  
 [Delayed Publication and Announcement]  
 [*specify other*]]  
 [Condition 6 applies]  
*(NB: if Condition 6 applies, the Disruption Fallbacks specified in that Condition will apply)*
- (xxv) Maximum Days of Disruption: [●]  
*(If no Maximum Days of Disruption are stated, Maximum Days of Disruption will be equal to five)*
- (xxvi) Strike Price: [●]
- (xxvii) Correction of Commodity Prices: Correction of Commodity Prices [applies/does not apply and the Relevant Price shall be calculated without regard to any

subsequently published correction].

(xxviii) Correction Cut-Off Date: [•] Business Days prior to each Interest Payment Date/Not Applicable.

(xxix) Trade Date: [•]

(xxx) Other terms or special conditions: [•]  
*(If any other terms or special conditions are applicable, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive and article 13 of the Luxembourg Act dated 10th July 2005 relating to prospectuses for securities)*

(xxxii) Evolution of Basket of Commodities: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

– CommodityBasket<sub>initial</sub>: [•]  
*(Insert the initial Commodity Basket price)*

(xxxiii) Asian Option – Basket of Underlying Commodities: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

– CommodityBasket<sub>initial</sub>: [•]  
*(Insert the initial CommodityBasket price)*

– n: [•]

– CommodityBasket<sub>t</sub>: As determined in accordance with the following elections:

– CommodityBasket<sub>t</sub> Pricing Dates:

|                               |     |
|-------------------------------|-----|
| CommodityBasket <sub>t1</sub> | [•] |
| CommodityBasket <sub>t2</sub> | [•] |
| CommodityBasket <sub>t3</sub> | [•] |
| CommodityBasket <sub>tn</sub> | [•] |

*(Insert the different Pricing Dates for the purpose of determining each Commodity Basket<sub>t</sub>)*

(xxxiiii) Digital Option: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph. If applicable, insert the relevant variables within the corresponding paragraph below)*

– Digital Option Type: Basket of Underlying Commodities

– Digital Option Payment Condition: [Greater Than]  
 [Equal To]  
 [Less Than]  
 [Greater Than Or Equal To]

- [Less Than Or Equal To]
- Digital Option Variable: Basket of Underlying Commodities
- Digital Option Strike: [●]  
*(Insert relevant price)*
- Digital Option Exercised Rate: [[●] per cent. per annum]  
[As determined in accordance with the Conditions]
- Digital Option Payment Determination Method: [Not Applicable]  
[Screen Rate Determination]  
[Collar Rate]  
*(or other determination method if a Prospectus is not required for the purposes of the Prospectus Directive)*
- Digital Option Fallback Rate: [zero]  
[[●] per cent. per annum]  
[Collar Rate]  
*(If Screen Rate Determination and/or Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*
- Reference Rate: [●]  
*(Insert relevant LIBOR, EURIBOR or CMS rate)*
- Interest Determination Date(s): [●]  
*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)*
- Relevant Screen Page: [●]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”] *(if CMS)*  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*  
*(If Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*
- Cap Rate: [●]
- Floor Rate: [●]
- Collar Margin: [+/-] [●] per cent. per annum

|  |  |
|--|--|
| (xxxiv) Maturity Coupon:   | [Applicable][Not Applicable]<br><i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>   |
| – Maturity Coupon Type:  | [Call Performance]/[Put Performance]   |
| – Valuation Date:  | [●]  |
| – Strike Price:  | [●]  |
| 18 Inflation Linked Interest Note Provisions   | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>   |
| (i) Interest Variable Option:  | [Evolution of Index]<br>[Asian Option – Index]<br>[Digital Option]<br><i>(Depending on the applicable Interest Variable Option selected, insert the relevant variables within the corresponding paragraph below)</i> |
| (ii) Whether the Notes relate to a basket of inflation indices or a single inflation index and the identity of the relevant Index/Indices:               | Eurostat Harmonised Index of Consumer Prices excluding tobacco - Unrevised Series<br>Sponsored by Eurostat<br>[Give or annex details]  |
| (iii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 10: | [Give name and address]  |
| (iv) Interest Period End Dates:  | [●]  |
| (v) Business Day Convention for Interest Period End Dates:   | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]   |
| (vi) Interest Payment Dates:   | [[●] in each year, starting on [●], up to and including the Maturity Date]/[Interest Payment Dates will correspond to Interest Period End Dates]   |
| (vii) Business Day Convention for Interest Payment Dates:  | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention Not Applicable]  |
| (viii) Additional Business Centre(s):  | [●] <i>(please specify other financial centres required for the Business Day definition)</i>   |
| (ix) Margin:   | [+/-] [●] per cent. per annum  |
| (x) Minimum Rate of Interest:  | [●]  |
| (xi) Maximum Rate of Interest:   | [●]  |
| (xii) Day Count Fraction:  | <i>(Specify one of the options listed below)</i>   |

- [[Actual/Actual] or [Actual/Actual (ISDA)]  
 Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 [30/360] or [360/360] or [Bond Basis]  
 [30E/360] or [Eurobond Basis]  
 30E/360 (ISDA)  
 1/1]  
*(see Condition 3 for alternatives)*
- (xiii) Relevant Determination Date(s): [Specify/Five Business Days prior to [each/the Relevant Payment Date]]  
*(If no Relevant Determination Date is specified, the Relevant Determination Date will be five Business Days prior to the Relevant Payment Date)*
- (xiv) Related Bond(s): [Applicable/Not Applicable]  
 [Specify for an Index/Fall Back Bond]
- (xv) Issuer(s) of Related Bond(s): [●]/[Not Applicable]
- (xvi) Fallback Bond(s): [Applicable/Not Applicable]  
 [Specify for an Index/The bond determined as provided in Condition 10]
- (xvii) Period of Cessation of Publication: [2 consecutive months/specify]  
*(If no Period of Cessation of Publication is specified, the period will be two consecutive months)*
- (xviii) Trade Date: [●]
- (xix) Other terms or special conditions: [●]  
*(If any other terms or special conditions are applicable, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive and article 13 of the Luxembourg Act dated 10th July 2005 relating to prospectuses for securities)*
- (xx) Evolution of Index: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Index<sub>initial</sub>: [●]  
*(Insert the initial Index level)*
- (xxi) Asian Option – Index: [Applicable/Not Applicable]
- Index<sub>initial</sub>: [●]  
*(Insert the initial Index price)*
- n: [●]

- Index<sub>t</sub>: As determined in accordance with the following elections:

|                     |     |
|---------------------|-----|
| Index <sub>t1</sub> | [•] |
| Index <sub>t2</sub> | [•] |
| Index <sub>t3</sub> | [•] |
| Index <sub>tn</sub> | [•] |

*(Insert the different Valuation Dates for the purpose of determining each Index<sub>t</sub>)*

(xxii) Digital Option:

[Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph. If applicable, insert the relevant variables within the corresponding paragraph below)*

- Digital Option Type:

Index

- Digital Option Payment Condition:

[Greater Than]

[Equal To]

[Less Than]

[Greater Than Or Equal To]

[Less Than Or Equal To]

- Digital Option Variable:

Index

- Digital Option Strike:

[•]

*(Insert relevant level)*

- Digital Option Exercised Rate:

[[•] per cent. per annum]

[As determined in accordance with the Conditions]

- Digital Option Payment Determination Method:

[Not Applicable] [Screen Rate Determination]

[Collar Rate]

*(other determination method only if a Prospectus is not required for the purposes of the Prospectus Directive)*

- Digital Option Fallback Rate:

[Zero]

[[•] per cent. per annum]

[Collar Rate]

*(If Screen Rate Determination and/or Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*

- Reference Rate:

[•]

*(Insert relevant LIBOR, EURIBOR or CMS rate)*

- Interest Determination Date(s):

[•]

*(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR); first day of each Interest Period if Sterling LIBOR; second*

day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR; and the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of each Interest Period if CMS)

- Relevant Screen Page: [●]  
[Reuters Page <ISDAFIX2>, under the heading “EURIBOR Basis-EUR”](if CMS)  
*(in the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate)*  
*(If Collar Rate applies, insert relevant information for determining Digital Option Exercised Rate or Digital Option Fallback Rate)*
- Cap Rate: [●]
- Floor Rate: [●]
- Collar Margin: [+/-] [●] per cent. per annum
- (xxiii)Maturity Coupon: [Applicable][Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Maturity Coupon Type: [Call Performance]/[Put Performance]
- Valuation Date: [●]
- Strike Price: [●]
- 19 Additional Disruption Events: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*  
[Change in Law]  
[Hedging Disruption]  
[Increased Cost of Hedging]  
[Insolvency Filing]  
*(NB: Insolvency Filing only applicable in the case of Equity Linked Notes)*  
[Loss of Stock Borrow] *(NB: applicable only for Equity Linked Notes and Index Linked Notes)*  
[The Maximum Stock Loan Rate in respect of [specify in relation to each Underlying Equity/security] is [●]].  
*(NB: Only applicable if Loss of Stock Borrow is applicable)*  
[Increased Cost of Stock Borrow] *(NB: applicable only for Equity Linked Notes and Index Linked Notes)*  
[The Initial Stock Loan rate in respect of [specify in relation to each Underlying Equity/security] is [●]].

*(NB: Only applicable if Increased Cost of Stock Borrow is applicable)*

**PROVISIONS RELATING TO REDEMPTION**

- 20 Final Redemption Amount: Redemption will be at par
- 21 Early Redemption Amount: Condition 5(c) applies
- Early Redemption Amount payable on redemption for taxation reasons or on an illegality (or, in the case of Commodity Linked Notes, if the circumstances set out in Condition 6(b)(iii) have arisen or, in the case of Index Linked Notes, following an Index Adjustment Event in accordance with Condition 7(a)(ii)(b) or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 8(a)(ii)(b) or, in the case of Inflation Linked Notes, following an Inflation Index Cancellation pursuant to a Cessation of Publication in accordance with Condition 10 or, following an Additional Disruption Event (if applicable) :

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- 22 Form of Notes:
- (i) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes only upon an Exchange Event]]
- Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14th December, 2005.
- (ii) New Global Note: [Yes] [No]
- 23 Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details] *(Note that this item relates to the place of payment and not “Business Days” for the purposes of the Maturity Date, Interest Payment Dates and Optional Redemption Dates - please insert any additional financial centres required for the definition of Payment Day which applies to payments to be made to Noteholders and separate from the definition of “Additional Business Centre” and “Business Day”)*

- 24 Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No (if yes, give details)]

#### DISTRIBUTION

- 25 (i) If syndicated, names of Managers: [Not Applicable/give names]  
(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the managers. Describe underwriting)
- (ii) Date of Subscription Agreement: [•]
- (iii) Stabilising Manager (if any): [Not Applicable/give name]
- 26 If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- 27 Total commission and concession: [•] per cent. of the Aggregate Nominal Amount
- 28 U.S. Selling Restrictions: Reg. S Compliance Category 2; [TEFRA D/TEFRA C/TEFRA not applicable]
- 29 Non-exempt Offer: [Not Applicable] [An offer of the Notes may be made by the [Managers][Dealers][[,] [and] [specify names and addresses of any Authorised Offerors] [and by any additional [Authorised Offerors confirmed as such, and whose names and addresses are made available, on the website of the Guarantor (at [www.kbc.com][other]) and of the relevant Authorised Offeror] (together with the [Managers]/[Dealers], the “Authorised Offerors”)] other than pursuant to Article 3(2) of the Prospectus Directive in [specify relevant Member State(s) - which must be jurisdictions where the Base Prospectus and any supplements have been passported (in addition to the jurisdiction where approved and published)] (the “Public Offer Jurisdictions”) during the period from (and including) [specify date] (“Offer Start Date”) to (and including) [specify date] (“Offer Period”). See further Paragraph 11 of Part B below.]
- 30 Additional selling restrictions: [Not Applicable/give details]

#### PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and [public offer in the Public Offer Jurisdictions] [and] [admission to trading on [specify relevant regulated market (for example Regulated Market of the Luxembourg Stock Exchange)]] of the Notes described herein pursuant to the €15,000,000,000 Retail Euro Medium Term Note Programme of KBC Internationale Financieringsmaatschappij N.V. (KBC IFIMA N.V.).]

**RESPONSIBILITY**

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[●] (the "Reference Information") has been extracted from [www.standardandpoors.com, www.moody's.com and www.fitchratings.com (the "Relevant Websites")]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [each of the Relevant Websites], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: \_\_\_\_\_

By: \_\_\_\_\_

*Duly authorised*

*Duly authorised*

## PART B - OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING:

- (i) Listing and Admission to trading: [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the Regulated Market of the Luxembourg Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange)*] with effect from on or around [●].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS <sup>1</sup>:

The Notes to be issued have not been rated. The rating of the Guarantor is:

[Standard & Poor's Credit Market Services Italy Srl.: [●]]

[Moody's France S.A.S.: [●]]

[Fitch France S.A.S.: [●]]

[[Other]: [●]]

[*Need to include here a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.*]

[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert credit rating agency name(s)*].]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 and listed on the "List of Registered and Certified CRA's" as published by ESMA in accordance with Article 18(3) of such Regulation]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for*]

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<sup>1</sup> A list of credit rating agencies registered under Regulation (EC) No. 1060/2009 and listed on the "List of Registered and Certified CRA's" is published on the ESMA website (<http://esma.europa.eu/page/List-registered-and-certified-CRAs>).

*registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009 and listed on the “List of Registered and Certified CRA's” as published by ESMA in accordance with Article 18(3) of such Regulation.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

**3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE:**

[Save for any fees payable to the [Dealers/Managers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. - *Amend as appropriate if there are other interests*]

[(*When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

**4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES:**

(i) [Reasons for the offer: [•]]

(*See “Use of Proceeds” wording in Base Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)

(ii) [Estimated net proceeds: [•]]

(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)

(iii) [Estimated total expenses: [•]]

(*Expenses are required to be broken down into each principal intended “use” and presented in order of priority of such “uses”.*)

**5 YIELD: (Fixed Rate Notes only)**

Indication of yield: [•]

[Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]

The yield is calculated at the Issue Date on the basis of the Issue Price and the fixed rate of interest. It is not an indication of future yield.

6 **HISTORIC INTEREST RATES:** *(Floating Rate Notes only)*

Details of historic and projected performance of [LIBOR/EURIBOR/CMS] rates can be obtained from [Reuters].

7 **PERFORMANCE OF [INDEX/BASKET OF INDICES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE [INDEX/BASKET OF INDICES]:** *(Index-Linked Notes only)*

The details of past and future performance and volatility of the index/formula can be obtained on *[insert relevant Bloomberg page]*.

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

*[Need to include the name of [the/each] Index and a description if composed by the Issuer and if [the/each] Index is not composed by the Issuer need to include details of where the information about [the/each] Index can be obtained.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

8 **PERFORMANCE OF BASKET OF UNDERLYING EQUITIES, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING BASKET OF UNDERLYING EQUITIES]** *(Equity Linked Notes only)*

The details of past and future performance and volatility of the basket of Underlying Equities can be obtained on *[insert relevant Bloomberg page]*.

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

*[Need to include the name of [the/each] issuer of the underlying equities and the ISIN or other identification code]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

9 **PERFORMANCE OF INFLATION, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING INFLATION INDEX** *(Inflation Linked Notes only)*

The details of past and future performance and volatility of the relevant rates/formula/currencies/inflation index or indices can be obtained on *[insert relevant Bloomberg page]*.

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

10 **PERFORMANCE OF [THE COMMODITY/BASKET OF COMMODITIES/COMMODITY INDICES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE COMMODITY/BASKET OF COMMODITIES/COMMODITY INDICES]]** (*Commodity Linked Notes only*)

The details of past and future performance and volatility of the relevant commodity/basket of commodities can be obtained on [insert relevant Bloomberg page].

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

[Need to include [the/each] commodity identification code (if any)]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

11 **[TERMS AND CONDITIONS OF THE OFFER:]** (*Delete in the case of an exempt offer*)

[Offer Price: [Specify]]

[Conditions to which the offer is subject:] [Not applicable/give details]

[Description of the application process:] [Not applicable/give details]

[Details of the minimum and/or maximum amount of application:] [Not applicable/give details]

[Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants] [Not applicable/give details]

[Details of the method and time limits for paying up and delivering the Notes:] [Not applicable/give details - where Additional Settlement Date(s) is/are specified as being applicable, insert the following paragraph:

The date of delivery of the Notes to the investors’ respective book-entry securities accounts will vary depending on the period during which the offer of the Notes is accepted by the relevant investor. The Issuer estimates that the Notes will be delivered on or around the date specified for the relevant period under the heading “Settlement Date” as specified in the table under “Offer Price” above.]

[Manner in and date on which results of the offer and the Additional Settlement Date(s) (if relevant) are to be made public:] [Not applicable/*give details*]

[Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:] [Not applicable/*give details*]

[Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries:] [Not applicable/*give details*]

[Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:] [Not applicable/*give details*]

[Amount of any expenses and taxes specifically charged to the subscriber or purchaser:] [Not applicable/*give details*]

[Name(s) and addresses, to the extent known to the Issuer, of the placers in the various countries where the offer takes place:] [Not applicable/*give details*]

**12 OPERATIONAL INFORMATION:**

(i) ISIN Code: [•]

(ii) Common Code: [•]

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

(iv) Delivery: Delivery against payment

(v) Names and addresses of additional Paying Agent(s) (if any): [•]  
*(Insert here any other relevant codes such as CUSIP and CINS codes)*

(vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]  
[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of

the Eurosystem eligibility criteria.] [*include this text if yes”  
selected in which case the Notes must be issued in NGN form*]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but if not so permitted and agreed, such definitive Note will have endorsed upon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Temporary Global Note, Permanent Global Note and definitive Note. Reference should be made to “Form of Final Terms” above for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions and/or will specify which of such terms are to apply in relation to the relevant Notes.*

The Notes are one of a Series (as defined below) of Notes issued by KBC International Financieringsmaatschappij N.V. (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean (i) in relation to any Notes represented by a Global Note, (a “Global Note”) units of each Specified Denomination in the Specified Currency, (ii) any definitive Notes issued in exchange for a Global Note and (iii) any Global Note.

The Notes and the Coupons (as defined below) are issued pursuant to and have the benefit of an Agency Agreement (the “Agency Agreement”) dated 27 June 2012 as amended and/or supplemented and/or restated from time to time in relation to the Issuer’s €15,000,000,000 Retail Euro Medium Term Note Programme, and made among the Issuer, KBC Bank NV (the “Guarantor”) as guarantor, KBL European Private Bankers S.A. as issuing and principal paying agent (the “Agent”, which expression shall include any successor agent specified in the applicable Final Terms), and the other paying agents named therein (together with the Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The final terms for a Series of Notes (or the relevant provisions thereof) are set out in Part A of the Final Terms and are attached hereto or endorsed hereon and supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “applicable Final Terms” are to the Final Terms (or the relevant provisions thereof) attached hereto or endorsed hereon.

The payment and, where applicable, delivery of all amounts in respect of this Note has been guaranteed by the Guarantor pursuant to a deed of guarantee dated 27 June 2012 as amended and/or supplemented and/or restated from time to time (the “Guarantee”) executed by the Guarantor. The original of the Guarantee is held by the Agent on behalf of the Noteholders and the Couponholders at its specified office.

The Notes are issued on an unsubordinated basis by the Issuer and guaranteed on an unsubordinated basis (such guarantee the “Guarantee”) by the Guarantor as described in Condition 2 (a “Guaranteed Note”). Any reference to “Noteholders” or “holders” in relation to any Notes shall mean the holders of the Notes, and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Couponholders” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant executed by the Issuer (the “Deed of Covenant”) dated 27 June 2012 as amended and/or supplemented and/or restated from time to time. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, the Guarantee and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at, and copies may be obtained from, the specified office of each of the Paying Agents, save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Noteholder holding one or more Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of such Notes and identity. Copies of the applicable Final Terms relating to Notes which are admitted to trading on a regulated market in the European Economic Area and/or offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive are also available for viewing on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu). The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Guarantee, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1 Form, Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, an Equity Linked Interest Note, an Index Linked Interest Note, a Commodity Linked Interest Note, an Inflation Linked Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms. This Note will be redeemed at par. Definitive Notes are issued with Coupons attached.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Guarantor and, the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof, whether or not overdue and notwithstanding any notice of ownership or writing thereon at notice of any previous loss or theft thereof, for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream, Banking société anonyme (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg), who is for the time being shown in the records of

Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## **2 Status of the Notes and the Guarantee**

- (i) The Notes and the relative Coupons constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer and *pari passu* without any preference among themselves except for obligations given priority by law.
- (ii) The Notes are guaranteed as to payment of principal and interest by the Guarantor upon the terms contained in the Guarantee (such terms being referred to herein as the “Guarantee”).
- (iii) Claims in respect of the Guarantee constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Guarantor (including those arising under deposits received in its banking business), without any preference among themselves and *pari passu* without any preference one above the other by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.

## **3 Interest**

If the Notes are specified in the applicable Final Terms as Commodity Linked Interest Notes, then the provisions of this Condition 3 are subject to Condition 6. If the Notes are specified in the applicable Final Terms as Index Linked Interest Notes, then the provisions of this Condition 3 are subject to Condition 7. If the Notes are specified in the applicable Final Terms as Equity Linked Interest Notes, then the provisions of this Condition 3 are subject to Condition 8. If the Notes are specified in the applicable Final Terms as Inflation Linked Interest Notes, then the provisions of this Condition 3 are subject to Condition 7 and Condition 10.

### *(a) Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will accrue in respect of each Interest Period (as defined in Condition 3(d)) and will be payable in arrear on the Interest Payment Date(s).

If the Notes are in definitive form, the amount of interest payable per Calculation Amount on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified per Calculation Amount.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

For the purposes of these Terms and Conditions:

“Fixed Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 3(a):

- (i) if “Actual/Actual” (ICMA) is specified in the applicable Final Terms:
  - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Period End Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (iv) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Period End Date falling in a leap year, 366;
- (v) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vii) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (viii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30;

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30; and

- (ix) if “1/1” is specified in the applicable Final Terms, 1;

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including where either the Interest Commencement Date or if the final Interest Period End Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means, one cent.

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

- (i) Interest Period End Dates and Interest Payment Dates

Each Floating Rate Note, Index Linked Interest Note, Equity Linked Interest Note, Commodity Linked Interest Note and Inflation Linked Interest Note bears interest at the rate per annum (expressed as a percentage) equal to the Rate of Interest (determined in accordance with Condition 3(b)(ii)), from (and including) the Interest Commencement Date. Interest will accrue in respect of each Interest Period (as defined in Condition 3(d)) and will be payable in arrear on the Interest Payment Date(s). The amount of interest payable shall be calculated in accordance with Condition 3(b)(iv).

- (ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes and Inflation Linked Interest Notes will be equal to the rate of interest determined in the following manner,

depending on the Interest Variable Option specified in the applicable Final Terms (the “Variable Rate of Interest”), but subject always to any minimum and/or maximum limits imposed on such Variable Rate of Interest in accordance with Condition 3(b)(iv) and shall be in addition to any Maturity Coupon payable in accordance with Condition 3(b)(iii).

(A) Screen Rate Determination

(1) Where Screen Rate Determination is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will, subject as provided below, be the product of (1) either:

- (I) the offered quotation; or
- (II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Guarantor and (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

(2) If the Reference Rate is LIBOR or EURIBOR, and

(a) the Relevant Screen Page is not available or if in the case of (I) above, no such offered quotation appears or, in the case of (II) above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Guarantor shall request each of the Reference Banks as (defined below) to provide the Guarantor with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question;

(b) on any Interest Determination Date,

- (i) two or more of the Reference Banks provide the Guarantor with such offered quotations, the Variable Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Guarantor; or
- (ii) fewer than two of the Reference Banks provide the Guarantor with such offered rates, the Variable Rate of Interest for the relevant Interest Period shall be the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Guarantor it is quoting to leading

banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter bank market, as the case may be, plus or minus (as appropriate) the Margin (if any);

- (c) five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Guarantor for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations;
  - (d) the Variable Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Variable Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).
- (3) If the Reference Rate is CMS and such Reference Rate does not appear on the Relevant Screen Page at 11:00 am, Frankfurt time, on the relevant Interest Determination Date, then the Reference Rate will be determined on the basis of the mid-market annual swap rate quotations provided by five leading swap dealers in the European inter-bank market at approximately 11:00 a.m. Frankfurt time, on the relevant Interest Determination Date. The Guarantor will select the five swap dealers in its sole discretion and will request each of those dealers to provide a quotation of its rate in accordance with market practise. If at least three quotations are provided, the Reference Rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest and lowest quotations or, in the event, of equality, one of the highest and one of the lowest quotations. If fewer than three quotations are provided, the Guarantor will determine the Reference Rate in its sole discretion.
- (4) For the purposes of this paragraph 3(b)(ii)(A):
- “Agent” means KBL European Private Bankers S.A.
- “Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, and in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Guarantor in its sole discretion.
- “Specified Time” means 11.00 a.m. (London time) in the case of LIBOR, 11.00 a.m. (Brussels time) in the case of EURIBOR, or 11.00 a.m. (Frankfurt time) in the case of CMS.

(B) Rates Variance

Where Rates Variance is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

- (1)  $[(Rate_1 - Rate_2) \pm Margin]$ ; and
- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (B)(1), unless otherwise specified in the applicable Final Terms, the value of  $Rate_1$  and/or  $Rate_2$  for each Interest Period will be equal to the Variable Rate of Interest determined in accordance with sub-paragraph (A) above, for which purpose the Reference Date, Interest Determination Date and Relevant Screen Page are as set out in the applicable Final Terms.

(C) Evolution of Basket of Underlying Equities

Where Evolution of Basket of Underlying Equities is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left[ \left( \frac{\{EquityBasket_t - EquityBasket_{t-1}\}}{EquityBasket_{t-1}} \right) (\pm Margin) \right]; \text{ and}$$

- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (C)(1), the value of  $EquityBasket_t$  for each Interest Period will be equal to the Reference Price determined in accordance with Condition 8 in respect of the Valuation Date relating to such Interest Period, and the value of any  $EquityBasket_{t-1}$  for each Interest Period will be equal to the Reference Price determined in accordance with Condition 8 in respect of the Valuation Date relating to the immediately preceding Interest Period (or, with respect to the first Interest Period following the Interest Commencement Date,  $EquityBasket_{initial}$ ).

(D) Evolution of Index

Where Evolution of Index is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left[ \left( \frac{\{Index_t - Index_{t-1}\}}{Index_{t-1}} \right) (\pm Margin) \right]; \text{ and}$$

- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (D)(1), the value of any  $Index_t$  for each Interest Period will be equal to the Reference Price determined in accordance (i) Condition 7 for Index Linked Notes, and (ii) Condition 10 for Inflation Linked Notes in respect of the Valuation Date relating to such Interest Period, and the value of any  $Index_{t-1}$  for each Interest Period will be equal to the Reference Price determined in accordance with (i) Condition 7 for Index Linked Notes, and (ii) Condition 10 for Inflation Linked Notes) in respect of the Valuation Date relating to the immediately preceding Interest Period (or,

with respect to the first Interest Period following the Interest Commencement Date,  $Index_{initial}$ ).

(E) Evolution of Basket of Underlying Commodities

Where Evolution of Basket of Underlying Commodities is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left[ \left( \frac{\{CommodityBasket_t - CommodityBasket_{t-1}\}}{CommodityBasket_{t-1}} \right) (\pm Margin) \right]; \text{ and}$$

(2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (E)(1), the value of  $CommodityBasket_t$  for each Interest Period will be equal to the Reference Price (of a single underlying Commodity or a Commodity Index (as specified in the applicable Final Terms)) determined in accordance with Condition 6 in respect of the Pricing Date relating to such Interest Period, and the value of any  $CommodityBasket_{t-1}$  for each Interest Period will be equal to the Reference Price determined in accordance with Condition 6 in respect of the Pricing Date relating to the immediately preceding Interest Period (or, with respect to the first Interest Period following the Interest Commencement Date,  $CommodityBasket_{initial}$ ).

(F) Asian Option – Interest Rates

Where Asian Option – Interest Rates is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left[ \frac{Rate_{t1} + Rate_{t2} + \dots + Rate_{tn}}{n} \right] \pm Margin; \text{ and}$$

(2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (F)(1), unless otherwise specified in the applicable Final Terms, the value of any  $Rate_t$  for each Interest Period will be equal to the Variable Rate of Interest determined in accordance with sub-paragraph (A) above, for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page relating to each  $Rate_{tn}$  are as set out in the applicable Final Terms.

“n” shall be as specified in the applicable Final Terms.

(G) Asian Option – Index

Where Asian Option – Index is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left\{ \frac{\left[ \frac{\text{Index}_{t_1} + \text{Index}_{t_2} + \dots + \text{Index}_{t_n}}{n} \right] - \text{Index}_{\text{initial}}}{\text{Index}_{\text{initial}}} \right\} \pm \text{Margin} \quad ; \text{ and}$$

- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (G)(1), the value of (I)  $\text{Index}_{\text{initial}}$  shall be specified in the applicable Final Terms and (II) any  $\text{Index}_t$  for each Interest Period will be equal to the Reference Price determined in accordance with (i) Condition 7 for Index Linked Notes, and (ii) Condition 10 for Inflation Linked Notes in respect of the Valuation Date relating to such  $\text{Index}_t$ .

(H) Asian Option – Basket of Underlying Equities

Where Asian Option – Basket of Underlying Equities is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left\{ \frac{\left[ \frac{\text{EquityBasket}_{t_1} + \text{EquityBasket}_{t_2} + \dots + \text{EquityBasket}_{t_n}}{n} \right] - \text{EquityBasket}_{\text{initial}}}{\text{EquityBasket}_{\text{initial}}} \right\} \pm \text{Margin} \quad ; \text{ and}$$

- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (H)(1), the value of (I)  $\text{EquityBasket}_{\text{initial}}$  shall be specified in the applicable Final Terms and (II) any  $\text{EquityBasket}_t$  for each Interest Period will be equal to the Reference Price determined in accordance with Condition 8 in respect of the Valuation Date relating to such Equity Basket $_t$ .

(I) Asian Option – Basket of Underlying Commodities

Where Asian Option – Basket of Underlying Commodities is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be the product of:

$$(1) \left\{ \frac{\left[ \frac{\text{CommodityBasket}_{t_1} + \text{CommodityBasket}_{t_2} + \dots + \text{CommodityBasket}_{t_n}}{n} \right] - \text{CommodityBasket}_{\text{initial}}}{\text{CommodityBasket}_{\text{initial}}} \right\} \pm \text{Margin}$$

; and

- (2) the Interest Multiplier (or, if no Interest Multiplier is specified in the applicable Final Terms, 100 per cent).

For the purpose of sub-paragraph (I)(1), the value of (I)  $\text{CommodityBasket}_{\text{initial}}$  shall be specified in the applicable Final Terms and (II) any  $\text{CommodityBasket}_t$  for each Interest Period will be equal to the Reference Price (of a single underlying Commodity or a

Commodity Index (as specified in the applicable Final Terms)) determined in accordance with Condition 6 in respect of the Pricing Date relating to such CommodityBasket.

(J) Digital Option

Where Digital Option is specified in the applicable Final Terms as the Interest Variable Option, the Variable Rate of Interest for each Interest Period will be:

- (1) the Digital Option Exercised Rate, if the Digital Option Payment Condition is satisfied; or
- (2) the Digital Option Fallback Rate, if the Digital Option Payment Condition is not satisfied,

in each case with respect to the relevant Interest Period.

For the purposes of sub-paragraph (J):

- (I) the “Digital Option Payment Condition” shall be satisfied with respect to an Interest Period if:
  - (a) “Greater Than” is specified in the applicable Final Terms as the Digital Option Payment Condition and the Digital Option Variable is greater than the Digital Option Strike;
  - (b) “Equal To” is specified in the applicable Final Terms as the Digital Option Payment Condition and the Digital Option Variable is equal to the Digital Option Strike;
  - (c) “Less Than” is specified in the applicable Final Terms as the Digital Option Payment Condition and the Digital Option Variable is less than the Digital Option Strike;
  - (d) “Greater Than Or Equal To” is specified in the applicable Final Terms as the Digital Option Payment Condition and the Digital Option Variable is greater than or equal to the Digital Option Strike; and
  - (e) “Less Than Or Equal To” is specified in the applicable Final Terms as the Digital Option Payment Condition and the Digital Option Variable is less than or equal to the Digital Option Strike;
- (II) the “Digital Option Exercised Rate” with respect to an Interest Period means:
  - (a) if an interest rate (expressed as a percentage per annum rate) is specified as such in the applicable Final Terms, such interest rate;
  - (b) if Screen Rate Determination is specified as the Digital Option Payment Determination Method, the Variable Rate of Interest determined in accordance with sub-paragraph (B) above for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page are as set out in the applicable Final Terms; or
  - (c) if Collar Rate is specified as the Digital Option Payment Determination Method, the Variable Rate of Interest will be:

$$[\text{MAX}(\text{FloorRate}; \{\text{MIN}[\text{CapRate}; \text{Screen Rate} \pm \text{CollarMargin}]\})]$$

For the purpose of sub-paragraph 3(ii)(J)(II)(c), the value of the Floor Rate, Cap Rate and Collar Margin (if any) shall be specified in the applicable Final Terms and the Screen Rate shall be determined in accordance with sub-paragraph (B) above for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page are as set out in the applicable Final Terms.

- (III) the “Digital Option Fallback Rate” with respect to an Interest Period means:
- (a) if Zero is specified as such in the applicable Final Terms, zero (and no Interest Amount shall be payable in respect of the relevant Interest Period); or
  - (b) if an interest rate (expressed as a percentage per annum rate) is specified as such in the applicable Final Terms, such interest rate; or
  - (c) if the Digital Option Type is specified as Interest Rates and Screen Rate Determination is specified as the Digital Option Payment Determination Method, the Variable Rate of Interest determined in accordance with sub-paragraph (B) above for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page are as set out in the applicable Final Terms; or

if Collar Rate is specified as the Digital Option Fallback Rate, the Variable Rate of Interest will be:

$$\left[ \text{MAX}(\text{FloorRate}; \{ \text{MIN}[\text{CapRate}; \text{Screen Rate} \pm \text{CollarMargin}] \} \right]$$

For the purpose of sub-paragraph 3(ii)(J)(III)(c), the value of the Floor Rate, Cap Rate and Collar Margin (if any) shall be specified in the applicable Final Terms, and the Screen Rate shall be determined in accordance with sub-paragraph (B) above for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page are as set out in the applicable Final Terms.

- (IV) the “Digital Option Variable” with respect to an Interest Period means:
- (a) if the Digital Option Type is specified as Interest Rates and Screen Rate Determination is specified as the Digital Option Variable Interest Determination Method, the Variable Rate of Interest determined in accordance with sub-paragraph (B) above for which purpose the Reference Rate, Interest Determination Date(s) and Relevant Screen Page are as set out in the applicable Final Terms;
  - (b) if the Digital Option Type is specified as Basket of Underlying Equities, the Reference Price determined in accordance with Condition 8 in respect of the Valuation Date relating to such Interest Period;
  - (c) if the Digital Option Type is specified as Basket of Underlying Commodities, the Reference Price determined in accordance with Condition 6 in respect of the Valuation Date relating to such Interest Period; or
  - (d) if the Digital Option Type is specified as Index, the Reference Price in respect of the Valuation Date relating to such Interest Period, determined in accordance with Condition 7 in respect of Index Linked Interest Notes

and in accordance with Condition 10 in respect of Inflation Linked Interest Notes;

- (V) the “Digital Option Strike” with respect to an Interest Period means:
- (a) if the Digital Option Variable is specified as Interest Rates, the percentage rate specified as such in the applicable Final Terms;
  - (b) if the Digital Option Variable is specified as Basket of Underlying Equities, the amount specified as such in the applicable Final Terms;
  - (c) if the Digital Option Variable is specified as Basket of Underlying Commodities, the amount specified as such in the applicable Final Terms; or
  - (d) if the Digital Option Variable is specified as Index, the index level specified as such in the applicable Final Terms.

If the Guarantor or Calculation Agent (as applicable) is unable to determine any of the Digital Option Exercised Rate, Digital Option Fallback Rate or the Digital Option Variable in the customary manner at the relevant time on the relevant date, it shall determine such the Digital Option Exercised Rate, Digital Option Fallback Rate or the Digital Option Variable in a commercially reasonable manner.

(iii) Maturity Coupon

In the case of Commodity Linked Interest Notes, Index Linked Interest Notes, Equity Linked Interest Notes and Inflation Linked Interest Notes where Maturity Coupon is specified in the applicable Final Terms, an interest payment per Calculation Amount shall be payable on the Maturity Date (in addition to, for the avoidance of doubt, any other interest payable in accordance with the Condition 3(a) or 3(b)) equal to:

- (a) if the Maturity Coupon Type is specified as Call Performance and the Reference Price, in relation to the Valuation Date specified for such Maturity Coupon

- (A) is greater than the Strike Price:

$$\left\{ \left( \frac{\text{ReferencePrice}}{\text{StrikePrice}} \right) - 1 \right\} \times \text{Calculation Amount } \text{or}$$

- (B) is less than, or equal to, the Strike Price: zero (0).

- (b) if the Maturity Coupon Type is specified as Put Performance and the Reference Price, in relation to the Valuation Date specified for such Maturity Coupon,

- (A) is less than the Strike Price:

$$\left( \frac{\text{StrikePrice} - \text{ReferencePrice}}{\text{StrikePrice}} \right) \times \text{Calculation Amount } \text{or}$$

- (B) is more than, or equal to, the Strike Price: zero (0).

Where “Strike Price” and “Valuation Date” shall have the meanings specified in the applicable Final Terms, and the “Reference Price” shall be determined

- (a) with respect to Commodity Linked Interest Notes, in accordance with Condition 6;
- (b) with respect to Index Linked Interest Notes, in accordance with Condition 7;
- (c) with respect to Equity Linked Interest Notes, in accordance with Condition 8; or
- (d) with respect to Inflation Linked Interest Notes, in accordance with Condition 9.

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

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

Where the Variable Rate of Interest for any Interest Period is negative (whether by operation of a negative Margin or otherwise), then such Variable Rate of Interest shall be deemed to be zero.

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

The Guarantor, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes, and Inflation Linked Interest Notes will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Floating Rate Notes, the Guarantor, and in the case of Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes and Inflation Linked Interest Notes, the Calculation Agent, will notify the Issuer, the Guarantor (except with respect to Floating Rate Notes) and the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Guarantor, in the case of Floating Rate Notes, or the Calculation Agent, in the case of Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes, and Inflation Linked Interest Notes, will calculate the amount of interest (the “Interest Amount”) payable on the Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes or Inflation Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes or Inflation Linked Interest Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note, an Index Linked Interest Note, an Equity Linked Interest Note, a Commodity Linked Interest Note or an Inflation Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period in accordance with this Condition 3(b) or Condition 3(d):

- (i) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Period End Date falling in a leap year, 366;
- (iv) If “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless

(x) that day is the last day of February or (y) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (x) that day is the last day of February but not the Maturity Date or (y) such number would be 31, in which case D<sub>2</sub> will be 30; and

(viii) if “1/1” is specified in the applicable Final Terms, 1.

(vi) Notification of Rate of Interest and Interest Amounts

The Guarantor or the Calculation Agent, as the case may be, will promptly notify the Agent of each Interest Amount and the Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor, the other Paying Agents and any stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes, or Inflation Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 17 as soon as possible after their determination but in no event later than the fourth Luxembourg Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes or Inflation Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 17. For the purposes of this paragraph, the expression “Luxembourg Business Day” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in Luxembourg.

(vii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b), whether by the Guarantor or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders or the Couponholders shall attach to the Guarantor or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless either, upon due presentation thereof (if applicable), payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of: (1) the date on which all amounts due in respect of such Note have been paid; and (2) five days after the date on which the full amount of the moneys payable has been received by the Agent and/or all assets in respect of such Note have been received by any agent appointed by the Issuer to deliver such assets to Noteholders and notice to that effect has been given to the Noteholders in accordance with Condition 17,

(d) *General definitions applicable to interest-bearing Notes*

For the purposes of these Terms and Conditions:

“Interest Payment Date” means the Interest Payment Date(s) in each year specified in the applicable Final Terms;

“Interest Period” means the period from (and including) an Interest Period End Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Period End Date; and

“Interest Period End Date” means the Interest Period End Date(s) in each year specified in the applicable Final Terms.

(e) *Business Day Conventions and Business Days*

- (1) If a Business Day Convention is specified in the applicable Final Terms in relation to any date (including, for the avoidance of doubt, any Maturity Date) and (x) if there is no numerically corresponding day in the calendar month in which such date should occur or (y) if such date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is: in the case of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes, Commodity Linked Interest Notes and Inflation Linked Interest Notes only, the Floating Rate Convention, the relevant Interest Period End Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day, unless it would thereby fall into the next calendar month, in which event (A) such Interest Period End Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Period End Date shall be the last Business Day in the month;
- (2) the Following Business Day Convention, such date shall be postponed to the next day which is a Business Day;
- (3) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Wellington, respectively), or (2) in relation to any sum payable in euro, a day on which the TransEuropean Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

## 4 Payments

### (a) *Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Wellington, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

All payments will be subject in all cases to any fiscal or other laws, regulations or directives applicable thereto in the place of payment or other laws to which the Issuer, the Guarantor or its Paying Agents agree to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or directives or agreements, but without prejudice to the provisions of Condition 11(a) (as applicable).

Any references in these Terms and Conditions to payment of any sums in respect of the Notes shall be deemed to include, as applicable, delivery of assets if so provided in the applicable Final Terms and references to paid and payable shall be construed accordingly. The method of delivery of any assets and the liability for the costs and charges arising from such delivery will be as specified in the applicable Final Terms.

### (b) *Presentation of definitive Notes and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 11(a)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 12) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Inflation Linked Note, Index Linked Note, Equity Linked Note, Commodity Linked Note or Long Maturity Note in definitive form becomes due and repayable prior to its Maturity Date, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “Long Maturity Note” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount at issue is less than the aggregate interest payable thereon (provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of the relevant definitive Note).

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream Luxembourg, as applicable.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place (unless otherwise specified in the applicable Final Terms) and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “Payment Day” means any day which (subject to Condition 12) is:

- (i) 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:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation; and
  - (B) each Additional Financial Centre specified in the applicable Final Terms; and
- (ii) unless specified otherwise in the applicable Final Terms,
  - (A) a day on which the TARGET2 System is open; and
  - (B) where a sum is payable in a Specified Currency, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of such Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Wellington, respectively).

(f) *Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 11(a);
- (ii) the Final Redemption Amount;
- (iii) the Early Redemption Amount;
- (iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 11(a).

## **5 Redemption and Purchase**

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at par in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

If Condition 11(a) is specified as applicable in the applicable Final Terms, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note, an Index Linked Interest Note, an Equity Linked Interest Note, a Commodity Linked Interest Note or an Inflation Linked Interest Note) or on any Interest Payment Date (if this Note is a Floating Rate Note, an Index Linked Interest Note, an Equity Linked Interest Note, a Commodity Linked Interest

Note or an Inflation Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 17, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11(a) or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in either case as a result of any change in, or amendment to, the laws or regulations of The Netherlands or Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

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

Notes redeemed pursuant to this Condition 5(b) will be redeemed at the Early Redemption Amount referred to in paragraph (c) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

If Condition 11(b) is specified as applicable in the applicable Final Terms, this Condition 5(b) shall not apply to the Notes.

(c) *Early Redemption Amounts*

For the purpose of these Terms and Conditions, the Early Redemption Amount in respect of any Note shall be, in respect of each nominal amount of such Notes equal to the Calculation Amount, such amount(s) calculated by the Calculation Agent in its sole discretion, acting reasonably, by determining the fair market value of such Notes on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Calculation Agent. For the purposes hereof: (I) the references to "together (if appropriate) with interest accrued to (but excluding) the date of redemption" shall be deemed to be deleted from each of Condition 5(b) and Condition 5(d); and (II) the references to "together with accrued interest thereon to the date of repayment", shall be deemed to be deleted from Condition 13.

(d) *Illegality*

In the event that the Calculation Agent determines that the performance of the Issuer's obligations under the Notes or, as the case may be, the Guarantor's obligations under the Guarantee or that any arrangements made to hedge the Issuer's obligations under the Notes has or will become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any applicable present

or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, the Issuer having given not less than 10 nor more than 30 days' notice to Noteholders in accordance with Condition 17 (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Notes, each Note being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(e) *Purchases*

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

(f) *Cancellation*

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

## **6 Commodity Linked Notes**

If the Notes are specified as Commodity Linked Interest Notes in the applicable Final Terms then the provisions of this Condition 6 apply, as applicable, as modified by the applicable Final Terms.

(a) *Market Disruption*

(i) *Definition*

“Market Disruption Event” means an event that, if applicable to the Notes, would give rise, in accordance with an applicable Disruption Fallback, to an alternative basis for determining the Relevant Price in respect of a specified Commodity Reference Price or the cancellation of the Notes were the event to occur or exist on a day that is a Pricing Date (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the relevant Price Source).

In the case of a Commodity, each of:

- (A) “Price Source Disruption”;
- (B) “Trading Disruption”;
- (C) “Disappearance of Commodity Reference Price”;
- (D) “Material Change in Formula”;
- (E) “Material Change in Content”; and
- (F) “Tax Disruption”,

in any case, as specified in the applicable Final Terms or as deemed to be specified pursuant to Condition 6(b)(ii), shall be a Market Disruption Event.

In the case of a Commodity Index, each of the following shall, unless otherwise specified in the applicable Final Terms, be a Market Disruption Event:

- (A) a temporary or permanent failure by the Price Source to announce or publish (x) the Commodity Reference Price or (y) the closing or other relevant price for any Commodity Index Component;
- (B) a material suspension of, or the material limitation imposed on, or disruption of, trading in one or more of the Commodity Index Components which results in a failure by the Exchange on which a relevant Commodity Index Component is traded to report the closing or other relevant price for such Commodity Index Component; or
- (C) the closing or other relevant price for any Commodity Index Component is a “limit price”, which means that the closing or other relevant price for such Commodity Index Component for a day has increased or decreased from the previous day’s closing or other relevant price by the maximum amount permitted under the rules of the relevant Exchange.

The applicable Final Terms may specify one or more alternative events as “Market Disruption Events” in relation to a Commodity and/or a Commodity Index.

(ii) Deemed Market Disruption Events

In the case of a Commodity, if no Market Disruption Events are specified in the applicable Final Terms, the following Market Disruption Events will be deemed to have been specified:

- (A) in respect of a Commodity other than a Commodity which is specified in the applicable Final Terms to be a Bullion Commodity: (I) “Price Source Disruption”, (II) “Trading Disruption”, (III) “Disappearance of Commodity Reference Price”, (IV) “Material Change in Formula” and (V) “Material Change in Content”; and
- (B) in respect of a Commodity which is specified in the applicable Final Terms to be a Bullion Commodity: (x) “Price Source Disruption”, (y) “Trading Disruption” and (z) “Disappearance of Commodity Reference Price”.

(iii) Consequences of a Market Disruption Event

If the Calculation Agent determines that a Market Disruption Event applicable to the Notes has occurred or exists on a day that is a Pricing Date (or, if different, the day on which prices for that Pricing Date would, in the ordinary course of business, be published or announced by the relevant Price Source), the Relevant Price for that Pricing Date will be determined in accordance with the first applicable Disruption Fallback (applied in accordance with its terms) that provides the Relevant Price or, if there is no such Relevant Price, the first applicable, if any, Disruption Fallback that provides for the cancellation of the Notes.

The Calculation Agent shall, as soon as practicable, notify the Issuer and the Agent if it has determined that a Market Disruption Event has occurred and the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 17 giving details of the action proposed to be taken in relation thereto.

(b) *Disruption Fallbacks*

(i) Definition

“Disruption Fallback” means the source or method that, if applicable to the Notes, may give rise to an alternative basis for determining the Relevant Price in respect of a specified Commodity Reference Price or the cancellation of the Notes when a Market Disruption Event occurs or exists on a day that is a Pricing Date (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the relevant Price Source).

In the case of a Commodity, each of:

- (A) “Fallback Reference Dealers”;
- (B) “Fallback Reference Price”;
- (C) “Cancellation”;
- (D) “Postponement”;
- (E) “Calculation Agent Determination”;
- (F) “Delayed Publication and Announcement”;

in any case, as specified in the applicable Final Terms or as deemed to be specified pursuant to Condition 6(b)(ii) below, shall be a Disruption Fallback.

In the case of a Commodity Index, each of:

- (A) “Postponement”;
- (B) “Calculation Agent Determination”;
- (C) “Cancellation”;
- (D) “Delayed Publication and Announcement”;

in any case, as specified in the applicable Final Terms or as deemed to be specified pursuant to Condition 6(b)(ii) below, shall be a Disruption Fallback.

The applicable Final Terms may specify one or more alternative provisions as “Disruption Fallbacks” in relation to a Commodity and/or a Commodity Index.

(ii) Deemed Disruption Fallbacks

In the case of a Commodity, if no Disruption Fallbacks are specified in the applicable Final Terms, the following Disruption Fallbacks will be deemed to have been specified (in the following order): (A) “Fallback Reference Price” (if an alternate Commodity Reference Price is specified in the applicable Final Terms), (B) “Delayed Publication and Announcement” and “Postponement” (each to operate concurrently with the other and each subject to two Commodity Business Days as the applicable Maximum Days of Disruption PROVIDED THAT the price determined by “Postponement” shall be the Relevant Price only if “Delayed Publication and Announcement” does not yield a Relevant Price within the Maximum Days of Disruption), (C) “Calculation Agent Determination” and (D) “Cancellation”.

In the case of a Commodity Index, if no Disruption Fallbacks are specified in the applicable Final Terms, the following Disruption Fallbacks will be deemed to have been specified (in the

following order): (A) “Delayed Publication and Announcement” and “Postponement” (each to operate concurrently with the other and each subject to two Commodity Business Days as the applicable Maximum Days of Disruption PROVIDED THAT the price determined by “Postponement” shall be the Relevant Price only if “Delayed Publication and Announcement” does not yield a Relevant Price within the Maximum Days of Disruption), (B) “Calculation Agent Determination” and (C) “Cancellation”.

(iii) Cancellation

If a Market Disruption Event occurs or exists on a day that would otherwise be a Pricing Date (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the relevant Price Source) and (A) “Cancellation” is specified in the applicable Final Terms or is deemed to have been specified in accordance with Condition 6(b)(ii) above and (B) none of the other applicable Disruption Fallbacks (if any) provides the parties with a Relevant Price, on giving notice to Noteholders in accordance with Condition 17 (which notice will be irrevocable), the Issuer will redeem all but not some only of the Notes, each Note being redeemed at the Early Redemption Amount. Payment will be made in such manner and subject to such conditions as shall be notified to the Noteholders in accordance with Condition 17 and upon such payment in respect of such Note, the Issuer’s obligations in respect thereof shall be discharged.

(c) *Correction of Commodity Prices*

If Correction of Commodity Prices is specified in the applicable Final Terms, if the price or level published or announced on a given day and used or to be used by the Calculation Agent to determine a Relevant Price is subsequently corrected and the correction (the “Corrected Commodity Price”) is published or announced by the person responsible for that publication or announcement within 30 calendar days of the original publication or announcement, (A) the Issuer shall give notice as soon as practicable of that correction to the Noteholders in accordance with Condition 17 and (B) the Calculation Agent shall use such Corrected Commodity Price in determining the relevant Interest Amount. Corrections published after the Correction Cut-Off Date will be disregarded by the Calculation Agent for the purposes of determining the relevant Interest Amount.

(d) *Adjustments to a Commodity Index*

(i) Successor Index Sponsor Calculates and Reports a Commodity Index

If a relevant Commodity Index is (i) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor (a “Successor Index Sponsor”) acceptable to the Calculation Agent or (ii) replaced by a successor commodity index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of that Commodity Index, then, in each case, that commodity index (the “Successor Commodity Index”) will be deemed to be the Commodity Index.

(ii) Modification and Cessation of Calculation of a Commodity Index

If on or prior to a Pricing Date the relevant Index Sponsor makes or announces that it will make a material change in the formula for or the method of calculating a relevant Commodity Index or in any other way materially modifies that Commodity Index (other than a modification prescribed in that formula or method to maintain that Commodity Index in the event of changes in constituent Commodity Index Components and weightings and other routine events) (a

“Commodity Index Modification”) or permanently cancels the Commodity Index (a “Commodity Index Cancellation” and, together with a Commodity Index Modification, each a “Commodity Index Adjustment Event”), then the Issuer may take the action described in (a) or (b) below:

- (a) require the Calculation Agent to determine if such Commodity Index Adjustment Event has a material effect on the Notes and, if so, to either (A) in relation to any Pricing Date, calculate the Relevant Price using, in lieu of a published level for that Commodity Index, the level for that Commodity Index as at the relevant Pricing Date as determined by the Calculation Agent in accordance with the formula for and method of calculating that Commodity Index last in effect prior to the relevant Commodity Index Adjustment Event, but using only those Commodity Index Components that comprised that Commodity Index immediately prior to that Commodity Index Adjustment Event or (B) substitute that Commodity Index with a replacement commodity index using, in the determination of the Calculation Agent, the same or a substantially similar method of calculation as used in the calculation of that Commodity Index and the Calculation Agent shall determine the adjustments, if any, to be made to these Terms and Conditions and/or the applicable Final Terms to account for such substitution; or
- (b) give notice to the Noteholders in accordance with Condition 17 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

(iii) Notice

Upon the occurrence of a Commodity Index Adjustment Event, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 17 giving details of the action proposed to be taken in relation thereto.

(e) *Definitions*

For the purposes of this Condition 6:

“Bullion Commodity” means any Commodity specified as a Bullion Commodity in the applicable Final Terms.

“Calculation Agent Determination” means that the Calculation Agent will determine the Relevant Price (or method for determining a Relevant Price), taking into consideration the latest available quotation for the relevant Commodity Reference Price and any other information that it deems relevant.

“Cancellation” means that the Notes will be redeemed early in accordance with the provisions of Condition 6(b)(iii) above.

“Commodity” means the commodity (or commodities) specified in applicable Final Terms.

“Commodity Business Day” means, unless otherwise specified in the applicable Final Terms:

- (a) in respect of a Commodity (other than a Commodity which is specified in the applicable Final Terms to be a Bullion Commodity):
  - (i) where the Commodity Reference Price for such Commodity is a price announced or published by an Exchange, any day that is (or, but for the occurrence of a Market Disruption Event, would have been) a day on which that Exchange is open for trading

during its regular trading session, notwithstanding that Exchange closing prior to its scheduled closing time; and

- (ii) where the Commodity Reference Price for such Commodity is not a price announced or published by an Exchange, a day in respect of which the relevant Price Source published (or, but for the occurrence of a Market Disruption Event, would have published) a price;
- (b) in respect of a Commodity which is specified in the applicable Final Terms to be a Bullion Commodity, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London and New York City or as otherwise specified in the applicable Final Terms;
- (c) in respect of a Commodity Index and its Commodity Index Components, a day:
  - (A) with respect to Commodity Index Components which are Exchange-traded, on which all such Exchanges are (or, but for the occurrence of a Market Disruption Event, would have been) open for trading during their respective regular trading sessions, notwithstanding any such Exchange closing prior to its scheduled closing time; or
  - (B) with respect to Commodity Index Components which are not Exchange-traded, on which the relevant Price Source published (or, but for the occurrence of a Market Disruption Event, would have published) a closing or other relevant price for such Commodity Index Components.

“Commodity Business Day Convention” means the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Commodity Business Day. The following terms, when used in conjunction with the term “Commodity Business Day Convention” and a date, will mean that an adjustment will be made if that date would otherwise fall on a day that is not a Commodity Business Day so that:

- (a) if “Following” is specified, that date will be the first following day that is a Commodity Business Day;
- (b) if “Modified Following” or “Modified” is specified, that date will be the first following day that is a Commodity Business Day, unless that day falls in the next calendar month, in which case, that date will be the first preceding day that is a Commodity Business Day;
- (c) if “Nearest” is specified, that date will be the first preceding day that is a Commodity Business Day if the relevant date otherwise falls on a day other than a Sunday or a Monday and will be the first following day that is a Commodity Business Day if the relevant date otherwise falls on a Sunday or a Monday; and
- (d) if “Preceding” is specified, that date will be the first preceding day that is a Commodity Business Day.

“Commodity Index” means, subject to adjustment in accordance with this Condition 6, a commodity index comprising various Commodity Index Components, as specified in the applicable Final Terms.

“Commodity Index Component” means, in relation to a Commodity Index and any relevant date:

- (i) each of the futures contracts and/or over-the-counter contracts (whether swaps, forwards or otherwise) in relation to each commodity which, as at that date, comprise that Commodity Index or to which that Commodity Index directly or indirectly relates; and
- (ii) each commodities index or other asset or reference basis comprising that Commodity Index or to which that Commodity Index relates.

“Commodity-Reference Dealers” means, in respect of a Commodity, that the price for a Pricing Date will be determined on the basis of quotations provided by Reference Dealers on that Pricing Date of that day’s Specified Price for a Unit of such Commodity for delivery on the Delivery Date, if applicable. If four quotations are provided as requested, the price for that Pricing Date will be the arithmetic mean of the Specified Prices for such Commodity provided by each Reference Dealer, without regard to the Specified Prices having the highest and lowest values. If exactly three quotations are provided as requested, the price for that Pricing Date will be the Specified Price provided by the relevant Reference Dealer that remains after disregarding the Specified Prices having the highest and lowest values. For this purpose, if more than one quotation has the same highest or lowest value, then the Specified Price of one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the price for the Pricing Date cannot be determined.

“Commodity Reference Price” means:

- (i) in respect of a Commodity and for the purposes of determining a Relevant Price, the relevant commodity reference price for such Commodity specified in the applicable Final Terms; and
- (ii) in respect of a Commodity Index and for the purposes of determining a Relevant Price, the relevant commodity reference price for such Commodity Index specified in the applicable Final Terms, or if not so specified, the official closing level of such Commodity.

“Common Pricing” means, with respect to Notes linked to two or more Commodities and Commodity Reference Prices:

- (a) if “Common Pricing” is specified as “Applicable” in the applicable Final Terms, then no date will be a Pricing Date unless such date is a day on which all referenced Commodity Reference Prices (for which such date would otherwise be a Pricing Date) are scheduled to be published or announced, as determined on the Trade Date of the Notes as of the Issue Date; or
- (b) if “Common Pricing” is specified as “Not Applicable” in the applicable Final Terms, then if the Calculation Agent determines that a Market Disruption Event has occurred or exists on a Pricing Date in respect of any Commodity and/or Commodity Index (each an “Affected Commodity”), the Relevant Price of each Commodity and/or Commodity Index which is not affected by the occurrence of a Market Disruption Event shall be determined on the relevant scheduled Pricing Date and the Relevant Price for each Affected Commodity shall be determined in accordance with the first applicable Disruption Fallback that provides a Relevant Price.

“Delayed Publication and Announcement” means that the Relevant Price for a Pricing Date will be determined based on (in the case of a Commodity) the Specified Price or (in the case of a Commodity Index) the price or level of such Commodity Index specified in the Commodity Reference Price in respect of the original day scheduled as such Pricing Date that is published or announced by the relevant Price Source retrospectively on the first succeeding Commodity Business Day on which the Market Disruption Event ceases to exist, unless that Market Disruption Event continues to exist (measured from and including the original day that would otherwise have been the Pricing Date) or the Relevant Price continues to be unavailable for consecutive Commodity Business Days equal in number to the Maximum Days of Disruption. In that case, the next Disruption Fallback specified in the applicable Final Terms will apply.

“Delivery Date” means, in respect of a Commodity Reference Price, the relevant date or month for delivery of the underlying Commodity (which must be a date or month reported or capable of being determined from information reported in or by the relevant Price Source) as follows:

- (a) if a date is, or a month and year are, specified in the applicable Final Terms, that date or that month and year;
- (b) if a Nearby Month is specified in the applicable Final Terms, the month of expiration of the relevant Futures Contract; and
- (c) if a method is specified in the applicable Final Terms for the purpose of determining the Delivery Date, the date or the month and year determined pursuant to that method.

“Disappearance of Commodity Reference Price” means (A) the permanent discontinuation of trading, in the relevant Futures Contract on the relevant Exchange; (B) the disappearance of, or of trading in, the relevant Commodity; or (C) the disappearance or permanent discontinuance or unavailability of a Commodity Reference Price, notwithstanding the availability of the related Price Source or the status of trading in the relevant Futures Contract or the relevant Commodity.

“Exchange” means:

- (i) in respect of a Commodity, each exchange or principal trading market for such Commodity specified in the applicable Final Terms; or
- (ii) in respect of a Commodity Index and its Commodity Index Components, each exchange or principal trading market (if any) on which each Commodity Index Component is principally traded or quoted, as determined by the Calculation Agent,

or, in any case, any successor to such exchange or principal trading market.

“Fallback Reference Dealers” means that the Relevant Price will be determined in accordance with the provisions of Commodity-Reference Dealers.

“Fallback Reference Price” means that the Calculation Agent will determine the Relevant Price based on the price for that Pricing Date of the first alternate Commodity Reference Price, if any, specified in the applicable Final Terms and not subject to a Market Disruption Event.

“Futures Contract” means, in respect of a Commodity Reference Price, the contract for future delivery of a contract size in respect of the relevant Delivery Date relating to the Commodity or, as the case may be, Commodity Index referred to in that Commodity Reference Price.

“Index Sponsor” means, in relation to a Commodity Index, the corporation or other entity that is responsible for setting and reviewing the rules and procedures, and the methods of

calculation and adjustments, if any, related to such Commodity Index, which as of the Issue Date is the index sponsor specified for such Commodity Index in the applicable Final Terms.

“Material Change in Content” means the occurrence since the Trade Date of a material change in the content, composition or constitution of the relevant Commodity or the relevant Futures Contract.

“Material Change in Formula” means the occurrence since the Trade Date of a material change in the formula for or the method of calculating the relevant Commodity Reference Price.

“Maximum Days of Disruption” means the number of Commodity Business Days specified in the applicable Final Terms or, if no such number is so specified, five Commodity Business Days.

“Nearby Month” when preceded by a numerical adjective, means, in respect of a Delivery Date and a Pricing Date, the month of expiration of the Futures Contract identified by that numerical adjective, so that, for example, (A) “First Nearby Month” means the month of expiration of the first Futures Contract to expire following that Pricing Date and (B) “Second Nearby Month” means the month of expiration of the second Futures Contract to expire following that Pricing Date etc.

“Postponement” means, in respect of a Pricing Date, that such Pricing Date will be deemed, for purposes of the application of this Disruption Fallback only, to be the first succeeding Commodity Business Day on which the Market Disruption Event ceases to exist, unless that Market Disruption Event continues to exist (measured from and including the original day that would otherwise have been such Pricing Date) for consecutive Commodity Business Days equal in number to the Maximum Days of Disruption. In that case, the next Disruption Fallback specified in the applicable Final Terms will apply.

“Pricing Date” means the date or each date specified as such in the applicable Final Terms (or determined pursuant to a method specified for such purpose), such date(s) being subject to the provisions of the Commodity Business Day Convention specified in the applicable Final Terms.

“Price Source” means:

- (i) in respect of a Commodity, the publication (or such other origin of reference, including an Exchange) containing (or reporting) the Specified Price (or prices from which the Specified Price is calculated) specified in the applicable Final Terms or any successor; or
- (ii) in respect of a Commodity Index and/or a Commodity Index Component, the publication (or such other origin of reference, including an Exchange) containing (or reporting) the closing level or price for such Commodity Index and/or Commodity Index Component (or other relevant level, levels, price or prices, including any level or price from which such level or price is calculated), specified in the applicable Final Terms or any successor.

“Price Source Disruption” means (A) the failure of the Price Source to announce or publish the Specified Price (or the information necessary for determining the Specified Price) for the relevant Commodity Reference Price, (B) the temporary or permanent discontinuance or unavailability of the Price Source or (C) if a Commodity Reference Price is “Commodity-Reference Dealers”, the failure to obtain at least three quotations as requested from the relevant Reference Dealers.

“Reference Dealers” means four leading dealers in the relevant market selected by the Calculation Agent.

“Relevant Price” means, in respect of a Pricing Date:

- (i) in the case of a Commodity, the price, which may be expressed as a price per Unit or otherwise as specified in the applicable Final Terms, of such Commodity; or
- (ii) in the case of a Commodity Index, the price or level of such Commodity Index,

in any case, determined with respect to that day for the relevant Commodity Reference Price.

“Specified Price” means, in respect of a Commodity Reference Price, any of the following prices (which must be a price reported in or by, or capable of being determined from information reported in or by, the relevant Price Source) as specified in the applicable Final Terms (and, if applicable, as of the time so specified): (A) the high price; (B) the low price; (C) the average of the high price and the low price; (D) the closing price; (E) the opening price; (F) the bid price; (G) the asked price; (H) the average of the bid price and the asked price; (I) the settlement price; (J) the official settlement price; (K) the official price; (L) the morning fixing; (M) the afternoon fixing; (N) the spot price; or (O) any other price specified in the Final Terms.

“Strike Price” means the amount specified as such in the applicable Final Terms.

“Tax Disruption” means the imposition of, change in or removal of an excise, severance, sales, use, value-added, transfer, stamp, documentary, recording or similar tax on, or measured by reference to, the relevant Commodity (other than a tax on, or measured by reference to overall gross or net income) by any government or taxation authority after the Trade Date, if the direct effect of such imposition, change or removal is to raise or lower the Relevant Price on the day that would otherwise be a Pricing Date from what it would have been without that imposition, change or removal.

“Trade Date” means the date specified as such in the applicable Final Terms.

“Trading Disruption” means the material suspension of, or the material limitation imposed on, trading in the relevant Futures Contract or the relevant Commodity on the relevant Exchange or in any additional futures contract, options contract or commodity on any Exchange as specified in the applicable Final Terms. For these purposes:

- (a) a suspension of the trading in the relevant Futures Contract or the relevant Commodity on any Commodity Business Day shall be deemed to be material only if:
  - (i) all trading in the relevant Futures Contract or the relevant Commodity is suspended for the entire Pricing Date; or
  - (ii) all trading in the relevant Futures Contract or the relevant Commodity is suspended subsequent to the opening of trading on the Pricing Date, trading does not recommence prior to the regularly scheduled close of trading in such Futures Contract or Commodity on such Pricing Date and such suspension is announced less than one hour preceding its commencement; and
- (b) a limitation of trading in the relevant Futures Contract or the relevant Commodity on any Commodity Business Day shall be deemed to be material only if the relevant Exchange establishes limits on the range within which the price of the relevant Futures Contract or the relevant Commodity may fluctuate and the closing or settlement price of the relevant

Futures Contract or the relevant Commodity on such day is at the upper or lower limit of that range.

“Unit” means, in respect of a Commodity, the unit of measure of such Commodity, as specified in the relevant Commodity Reference Price or the applicable Final Terms, as the case may be.

## **7 Index Linked Notes**

If the Notes are specified as Index Linked Interest Notes in the applicable Final Terms then the provisions of this Condition 7 apply, as applicable, as modified by the applicable Final Terms.

### *(a) Adjustments to an Index*

#### **(i) Successor Index Sponsor Calculates and Reports an Index**

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

#### **(ii) Modification and Cessation of Calculation of an Index**

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

- (a)** require the Calculation Agent to determine if such Index Adjustment Event has a material effect on the Notes and, if so, to either (A) in relation to any Valuation Date, calculate the Reference Price using, in lieu of a published level for that Index, the level for that Index as at the Valuation Time on that Valuation Date as determined by the Calculation Agent in accordance with the formula for and method of calculating that Index last in effect prior to the change, failure or cancellation, but using only those securities that comprised that Index immediately prior to that Index Adjustment Event or (B) substitute that Index with a replacement index using, in the determination of the Calculation Agent, the same or a substantially similar method of calculation as used in the calculation of that Index and the Calculation Agent shall determine the adjustments, if any, to be made to these Terms and Conditions and/or the applicable Final Terms to account for such substitution; or
- (b)** give notice to the Noteholders in accordance with Condition 17 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

(iii) Correction of an Index

If Correction of Index Levels is specified as applying in the applicable Final Terms, with the exception of any correction published after the Correction Cut-Off Date specified in the applicable Final Terms, if the official closing level of an Index published on a Valuation Date is subsequently corrected and the correction (the “Corrected Index Level”) is published by the Index Sponsor or (if applicable) the Successor Index Sponsor within one Settlement Cycle after the original publication, (A) the Issuer shall give notice as soon as practicable of that correction to the Noteholders in accordance with Condition 17, (B) such Corrected Index Level shall be deemed to be the closing level for such Index for that Valuation Date and (C) the Calculation Agent shall use such Corrected Index Level in determining the relevant Interest Amount and/or Redemption Amount. Corrections published after the Correction Cut-Off Date will be disregarded by the Calculation Agent for the purposes of determining the relevant Interest Amount and/or Redemption Amount.

(iv) Notice

Upon the occurrence of an Index Adjustment Event, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 17 giving details of the action proposed to be taken in relation thereto.

(b) *Definitions applicable to Index Linked Notes*

For the purposes of this Condition 7:

“Clearance System” means, in respect of a security underlying an Index, the principal domestic clearance system customarily used for settling trades in such security.

“Clearance System Business Day” means, in respect of a Clearance System, any day on which such Clearance System is (or, but for the occurrence of an event which results in such Clearance System being unable to clear the transfer of a relevant security, would have been) open for the acceptance and execution of settlement instructions.

“Disrupted Day” means:

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

“Exchange” means:

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

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

“Exchange Business Day” means:

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

“Indices” and “Index” mean, subject to adjustment in accordance with Condition 7(a), the indices or index specified in the applicable Final Terms and related expressions shall be construed accordingly.

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

“Market Disruption Event” means:

- (a) in respect of an Index other than a Designated Multi-Exchange Index:
  - (i) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:
    - (A) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:
      - (x) on any relevant Exchange(s) relating to securities that comprise 20 per cent. or more of the level of the relevant Index; or
      - (y) in futures or options contracts relating to the relevant Index on any relevant Related Exchange; or
    - (B) any event (other than an event described in (ii) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (x) to effect transactions in, or obtain market values for, on any relevant Exchange(s) securities that comprise 20 per cent. or more of the level of the relevant Index, or (y) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Index on any relevant Related Exchange,

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

- (ii) the closure on any Exchange Business Day of any relevant Exchange(s) relating to securities that comprise 20 per cent. or more of the level of the relevant Index or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to the earlier of (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day or, if earlier, (B) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day; or
- (b) in respect of a Designated Multi-Exchange Index either:
- (i) the occurrence or existence, in respect of any Component Security, of:
    - (A) a Trading Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange in respect of such Component Security;
    - (B) an Exchange Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange in respect of such Component Security; or
    - (C) an Early Closure in respect of such Component Security, which the Calculation Agent determines is material; and

the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists, comprises 20 per cent. or more of the level of the Index; OR
  - (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (A) a Trading Disruption at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange, (B) an Exchange Disruption at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange or (C) an Early Closure, in each case in respect of such futures or options contracts and which the Calculation Agent determines is material.

As used above:

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

“Exchange Disruption” means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general to effect transactions in, or obtain market values for: (a) any Component Security on the Exchange in

respect of such Component Security; or (b) futures or options contracts relating to the Index on any Related Exchange.

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

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

“Reference Price” means, in relation to a Valuation Date:

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

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

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

“Scheduled Trading Day” means:

- (a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions; or
- (b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, (i) any day on which the Index Sponsor is scheduled to publish the level of that Index and (ii) each Related Exchange is scheduled to be open for trading for its regular trading session.

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

“Settlement Cycle” means, in respect of an Index, the period of Clearance System Business Days following a trade in the securities underlying such Index on the Exchange in which settlement will customarily occur according to the rules of such Exchange (or, if there are multiple Exchanges in respect of an Index, the longest such period).

“Strike Price” means the amount specified as such in the applicable Final Terms.

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

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

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

“Valuation Time” means:

- (a) where the Index is not specified in the applicable Final Terms as being a Designated Multi-Exchange Index, the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date in relation to each Index to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time; or
- (b) where the Index is specified in the applicable Final Terms as being a Designated Multi-Exchange Index, the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, (i) for the purposes of determining whether a Market Disruption Event has occurred: (A) in respect of a Component Security, the Scheduled Closing Time on the relevant Exchange and (B) in respect of any options contracts or futures contracts on the Index, the close of trading on the relevant Related Exchange, and (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor. If, for the purposes of (i) above, the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

## **8 Equity Linked Notes**

If the Notes are specified as Equity Linked Interest Notes in the applicable Final Terms then the provisions of this Condition 8 apply, as applicable, as modified by the applicable Final Terms.

- (a) *Potential Adjustment Events, De-listing, Merger Event, Tender Offer, Nationalisation and Insolvency, Correction of Share Prices, Adjustments for Equity Linked Notes*
  - (i) If Potential Adjustment Events are specified as applying in the applicable Final Terms, then following the declaration by an Equity Issuer of the terms of any Potential Adjustment Event, the Calculation Agent will determine whether such Potential Adjustment Event has a diluting, concentrative or other effect on the theoretical value of the Underlying Equities and, if so, will (a) either (A) make the corresponding adjustment, if any, to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Strike Price and/or the Multiplier

and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines appropriate to account for that diluting, concentrative or other effect (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Underlying Equity) or (B) substitute the Underlying Equity the subject of the Potential Adjustment Event with a replacement equity security selected by the Calculation Agent and the Calculation Agent shall determine the adjustments, if any, to be made to these Terms and Conditions and/or the applicable Final Terms to account for such substitution and (b) determine the effective date of that adjustment or substitution, as the case may be. With respect to an adjustment pursuant to (A) above, the Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon making any such adjustment, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 17, stating the adjustment to the relevant Interest Amount and/or Redemption Amount, the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms and giving brief details of the Potential Adjustment Event.

For the purposes of this Condition 8:

“Potential Adjustment Event” means any of the following:

- (a) a subdivision, consolidation or reclassification of relevant Underlying Equities (unless resulting in a Merger Event), or a free distribution or dividend of any such Underlying Equities to existing holders by way of bonus, capitalisation or similar issue;
- (b) a distribution, issue or dividend to existing holders of the relevant Underlying Equities of (1) an additional amount of such Underlying Equities or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the relevant Equity Issuer equally or proportionately with such payments to holders of such Underlying Equities or (3) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the relevant Equity Issuer as a result of a spin-off or other similar transaction or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;
- (c) an extraordinary dividend as determined by the Calculation Agent;
- (d) a call by an Equity Issuer in respect of relevant Underlying Equities that are not fully paid;
- (e) a repurchase by an Equity Issuer or any of its subsidiaries of relevant Underlying Equities whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (f) in respect of an Equity Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Equity Issuer, pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value as determined by the Calculation Agent, provided that any

adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or

- (g) any other event that has or may have, in the opinion of the Calculation Agent, a diluting, concentrative or other effect on the theoretical value of the relevant Underlying Equities.
- (ii) If (x) De-listing, Merger Event, Nationalisation and Insolvency is specified as applying in the applicable Final Terms and/or (y) if Tender Offer is specified as applying in the applicable Final Terms and (in the case of (x)), a De-listing, Merger Event, Nationalisation or Insolvency occurs or (in the case of (y)) a Tender Offer occurs, in each case, in relation to an Underlying Equity, the Issuer in its sole and absolute discretion may:
- (a) require the Calculation Agent to determine the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The relevant adjustments may (i) include, without limitation, the substitution of the Underlying Equity the subject of the De-listing, Merger Event, Nationalisation, Insolvency or Tender Offer by a replacement equity security selected by the Calculation Agent and the Calculation Agent shall determine the adjustments, if any, to be made to these Terms and Conditions and/or the applicable Final Terms to account for such substitution or (ii) in the case of adjustments following a Merger Event or Tender Offer include, without limitation, adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Underlying Equities; or
  - (b) give notice to the Noteholders in accordance with Condition 17 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

If the provisions of Condition 8(a)(ii)(a) apply, the Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon the occurrence (if applicable) of a De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 17 stating the occurrence of the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of these Terms and Conditions:

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

“Insolvency” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of, or any ana

us proceeding affecting an Equity Issuer (A) all the Underlying Equities of that Equity Issuer are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Underlying Equities of that Equity Issuer become legally prohibited from transferring them;

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

“Merger Event” means, in respect of any relevant Underlying Equities, any (a) reclassification or change of such Underlying Equities that results in a transfer of, or an irrevocable commitment to transfer, all such Underlying Equities outstanding to another entity or person, (b) consolidation, amalgamation, merger or binding share exchange of the relevant Equity Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Equity Issuer is the continuing entity and which does not result in any such reclassification or change of all such Underlying Equities outstanding), (c) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Underlying Equities of the relevant Equity Issuer that results in a transfer of or an irrevocable commitment to transfer all such Underlying Equities (other than such Underlying Equities owned or controlled by such other entity or person), or (d) consolidation, amalgamation, merger or binding share exchange of the relevant Equity Issuer or its subsidiaries (if any) with or into another entity in which such Equity Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Equities outstanding but results in the outstanding Underlying Equities (other than those Underlying Equities owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Underlying Equities immediately following such event, in each case if the Merger Date is on or before the relevant Valuation Date or, if the Notes are to be redeemed by delivery of Underlying Equities, the Maturity Date;

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

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

- (iii) If Correction of Share Prices is specified as applying in the applicable Final Terms, with the exception of any corrections published after the Correction Cut-Off Date specified in the applicable Final Terms, if the price of an Underlying Equity published on a Valuation Date is subsequently corrected and the correction (the “Corrected Share Price”) is published on the relevant Exchange within one Settlement Cycle after the original publication, (A) the Issuer shall give notice as soon as practicable of that correction to the Noteholders in accordance with Condition 17, (B) such Corrected Share Price shall be deemed to be the closing price for such Underlying Equity for that Valuation Date (C) and the Calculation Agent shall use such Corrected Share Price in determining the relevant Interest Amount and/or Redemption Amount.

Corrections published after the Correction Cut-Off Date will be disregarded by the Calculation Agent for the purposes of determining the relevant Interest Amount.

- (iv) In respect of Equity Linked Notes relating to Underlying Equities originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such Underlying Equities are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, then the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines to be appropriate to preserve the economic terms of the Notes. The Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the Valuation Time. No adjustments under this Condition 8(a)(iv) will affect the currency denomination of any payments in respect of the Notes.

(b) *Definitions applicable to Equity Linked Notes*

For the purposes of this Condition 8:

“Clearance System” means, in respect of an Underlying Equity, the principal domestic clearance system customarily used for settling trades in such Underlying Equity.

“Clearance System Business Day” means, in respect of a Clearance System, any day on which such Clearance System is (or, but for the occurrence of an event which results in such Clearance System being unable to clear the transfer of the relevant Underlying Equity, would have been) open for the acceptance and execution of settlement instructions.

“Disrupted Day” means, in respect of an Underlying Equity, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred.

“Equity Issuer” means, in respect of an Underlying Equity, the issuer of such Underlying Equity specified in the applicable Final Terms.

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

“Exchange Business Day” means, in respect of an Underlying Equity, any Scheduled Trading Day on which each Exchange and each Related Exchange for such Underlying Equity is open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

“Market Disruption Event” means, in respect of an Underlying Equity:

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

- (i) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:
  - (A) relating to the Underlying Equity on the Exchange; or
  - (B) in futures or options contracts relating to the Underlying Equity on any relevant Related Exchange; or
- (ii) any event (other than an event described in (b) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (A) to effect transactions in, or obtain market values for, the Underlying Equities on the Exchange, or (B) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Underlying Equity on any relevant Related Exchange, which in either case the Calculation Agent determines is material; or
- (b) the closure on any Exchange Business Day of any relevant Exchange(s) or Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day or if earlier (B) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

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

“Related Exchange” means, in relation to an Underlying Equity, each exchange or quotation system specified as such in relation to such Underlying Equity in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Underlying Equity has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Underlying Equity on such temporary substitute exchange or

quotation system as on the original Related Exchange), PROVIDED THAT where “All Exchanges” is specified as the Related Exchange in the applicable Final Terms, “Related Exchange” shall mean each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Underlying Equity.

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

“Scheduled Trading Day” means any day on which each Exchange and each Related Exchange is scheduled to be open for trading for its respective regular trading session.

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

“Settlement Cycle” means, in respect of an Underlying Equity, the period of Clearance System Business Days following a trade in such Underlying Equity on the Exchange in which settlement will customarily occur according to the rules of such Exchange.

“Strike Price” means the amount specified as such in the applicable Final Terms.

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

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

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

## 9 Additional Disruption Events

### (a) *Additional Disruption Events*

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

- (i) require the Calculation Agent to determine the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the Additional Disruption Event and determine the effective date of that adjustment; or
- (ii) give notice to the Noteholders in accordance with Condition 17 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

Upon the occurrence of an Additional Disruption Event, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 17 stating the occurrence of the Additional Disruption Event, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

### (b) *Definitions applicable to Additional Disruption Events*

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

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

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

“Hedging Disruption” means that the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of

the Issuer issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s).

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

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

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

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

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

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

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

## **10 Inflation Linked Notes**

If the Notes are specified as Inflation Linked Interest Notes in the applicable Final Terms then the provisions of this Condition 10 apply, as applicable, as modified by the applicable Final Terms.

- (a) *Adjustments: Delay in Publication, Cessation of Publication, Manifest Error in Publication, Rebasing of the Index and Material Modification Prior to Relevant Payment Date*

(i) Delay in Publication

If the Calculation Agent determines, in respect of an Index and a Relevant Payment Date, that the level of such Index for a Reference Month which is relevant to the calculation of a payment under the Notes (a “Relevant Level”) has not been published or announced by the Relevant Determination Date for such Relevant Payment Date, the Calculation Agent shall determine the level of such Index for such Reference Month (a “Substitute Index Level”) in place of such Relevant Level by using the following methodology:

- (A) if applicable, the Calculation Agent will take the same action to determine the Substitute Index Level for the Affected Relevant Payment Date as that taken by the calculation agent pursuant to the terms and conditions of any relevant Related Bond; or
- (B) if (A) above does not result in a Substitute Index Level for the Affected Relevant Payment Date for any reason, then the Calculation Agent shall determine the Substitute Index Level by reference to the following formula:

$$\text{(Substitute Index Level = Base Level x (Latest Level/Reference Level))}$$

or otherwise in accordance with any formula or provisions specified in the applicable Final Terms.

Following the determination of a Substitute Index Level by the Calculation Agent in accordance with this Condition 10(a)(i), the Issuer shall promptly give notice to the Noteholders in accordance with Condition 17 of such Substitute Index Level.

If a Relevant Level in respect of a Relevant Payment Date is published or announced at any time after the Relevant Determination Date for such Relevant Payment Date, such Relevant Level will not be used in any calculations. The Substitute Index Level determined pursuant to this Condition 10(a)(i) will be the definitive level for that Reference Month.

For the purposes of this Condition 10(a)(i):

“Base Level” means, in respect of an Index, the level of such Index (excluding any “flash” estimates) published or announced by the relevant Index Sponsor in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined.

“Latest Level” means, in respect of an Index, the latest level of such Index (excluding any “flash” estimates) published or announced by the relevant Index Sponsor prior to the month in respect of which the Substitute Index Level is being determined.

“Reference Level” means, in respect of an Index, the level of such Index (excluding any “flash” estimates) published or announced by the relevant Index Sponsor in respect of the month that is 12 calendar months prior to the month referred to in the definition of “Latest Level” above.

(ii) Cessation of Publication

If the Calculation Agent determines that the level of an Index has not been published or announced for two consecutive months or such other period as is specified in the applicable Final Terms (the “Period of Cessation of Publication”) and/or the relevant Index Sponsor announces that it will no longer continue to publish or announce such Index then the Calculation Agent shall determine a successor index (a “Successor Index”) (in lieu of the

relevant previously applicable Index) for the purposes of the Notes by using the following methodology:

- (A) if at any time (other than after an Inflation Index Cancellation) a successor index has been designated in respect of an Index by the calculation agent pursuant to the terms and conditions of any relevant Related Bond, such successor index shall be designated the “Successor Index” for such Index for the purposes of all subsequent Relevant Payment Dates, notwithstanding that any other Successor Index may previously have been determined pursuant to paragraphs (B) or (C) below;
- (B) if a Successor Index is not determined pursuant to paragraph (A) above and no Inflation Index Cancellation has occurred and a notice has been given or an announcement has been made by the relevant Index Sponsor specifying that such Index will be superseded by a replacement index specified by the relevant Index Sponsor and the Calculation Agent determines that such replacement Index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Index, such replacement index shall be the “Successor Index” for such Index for the purposes of the Notes from the date that such Successor Index comes into effect; or
- (C) if a Successor Index has not been determined under (A) or (B) above and no Inflation Index Cancellation has occurred, the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Index should be. If between four and five responses are received and of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the “Successor Index”. If three responses are received, and two or more leading independent dealers state the same index, this index will be deemed the “Successor Index”. If fewer than three responses are received, the Calculation Agent will proceed to paragraph (D) hereof; or
- (D) if a Successor Index is not determined pursuant to paragraphs (A), (B) or (C) above by the Relevant Determination Date in respect of the next succeeding Affected Relevant Payment Date, the Calculation Agent will determine an appropriate alternative index for such Affected Relevant Payment Date and such index will be deemed to be the “Successor Index” for such Index.

If a Successor Index is determined in accordance with the above, the Calculation Agent may make such adjustment(s) to these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines necessary or appropriate to account for such replacement and determine the effective date(s) of the adjustment(s) to the Notes.

If the Calculation Agent determines that there is no appropriate alternative index, there will be deemed to be no Successor Index for such Index (an “Inflation Index Cancellation”) and, on giving notice to Noteholders in accordance with Condition 17, the Issuer shall redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

Notice of the determination of a Successor Index and the date from which such index becomes the Successor Index and any relevant adjustment(s) to these Terms and Conditions and/or the applicable Final Terms or any Inflation Index Cancellation will be given to Noteholders by the Issuer in accordance with Condition 17.

(iii) Manifest Error in Publication

If, in respect of a Relevant Payment Date and a Relevant Level in respect of such Relevant Payment Date, the Calculation Agent determines that the relevant Index Sponsor has corrected such Relevant Level to remedy a manifest error in its original publication, prior to thirty days following publication of such Relevant Level for such Relevant Payment Date the Calculation Agent may use such corrected Relevant Level to calculate any payments under the Notes in respect of such Relevant Payment Date. Corrections published on or after thirty days following publication of such Relevant Level for such Relevant Payment Date will be disregarded by the Calculation Agent for the purposes of determining any payments under the Notes.

Notice of any such correction pursuant to this Condition 10(a)(iii) shall be given to Noteholders in accordance with Condition 17.

(iv) Rebasing of the Index

If the Calculation Agent determines that an Index has been or will be rebased at any time, such Index as so rebased (the “Rebased Index”) will be used for purposes of determining any Relevant Level in respect of such Index from the date of such rebasing; provided, however, that the Calculation Agent shall make (A) such adjustments as are made by the calculation agent pursuant to the terms and conditions of any relevant Related Bond to the levels of such Rebased Index so that such Rebased Index levels reflect the same rate of inflation as the Index before it was rebased and/or (B) if there is no Related Bond, the Calculation Agent shall make such adjustments to the levels of such Rebased Index so that such Rebased Index levels reflect the same rate of inflation as the relevant Index before it was rebased and, in each case, the Issuer may make such adjustment(s) to these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines necessary or appropriate to account for such rebasing and determine the effective date of the adjustment(s) to the Notes. For the avoidance of doubt, any such rebasing shall not affect prior payments made under the Notes.

Notice of any adjustment or determination pursuant to this Condition 10(a)(iv) shall be given to Noteholders in accordance with Condition 17.

(v) Material Modification Prior to Relevant Payment Date

If, on or prior to the Relevant Determination Date in respect of any Relevant Payment Date, an Index Sponsor announces that it will make a material change to an Index, the Calculation Agent shall (A) make appropriate adjustment(s) to these Terms and Conditions and/or the applicable Final Terms, consistent with any adjustments made to any relevant Related Bond as the Calculation Agent determines necessary or appropriate to account for such change to such Index and determine the effective date(s) of the adjustment(s) to the Notes, or (B) if there is no relevant Related Bond make only those adjustments to the Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines necessary for the modified Index to continue as an Index.

Notice of any adjustment pursuant to this Condition 10(a)(v) shall be given to Noteholders in accordance with Condition 17.

(b) *For the purposes of this Condition 10:*

“Affected Relevant Payment Date” means each Relevant Payment Date in respect of which an Index has not been published or announced.

“Fallback Bond” means, in respect of an Index, a bond selected by the Calculation Agent and issued by the government of the country to whose level of inflation the relevant Index relates and which pays a coupon or redemption amount which is calculated by reference to such Index, with a maturity date which falls on (a) the same day as the Maturity Date, (b) the next longest maturity after the Maturity Date if there is no such bond maturing on the Maturity Date, or (c) the next shortest maturity before the Maturity Date if no bond defined in (a) or (b) is selected by the Calculation Agent. If the relevant Index relates to the level of inflation across the European Monetary Union, the Calculation Agent will select an inflation-linked bond that is a debt obligation of one of the governments (but not any government agency) of France, Italy, Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union. In each case, the Calculation Agent will select the Fallback Bond from those inflation linked bonds issued on or before the Issue Date of the first Tranche of the relevant Series and, if there is more than one inflation linked bond maturing on the same date, the Fallback Bond shall be selected by the Calculation Agent from those bonds. If the Fallback Bond redeems, the Calculation Agent will select a new Fallback Bond on the same basis, but selected from all eligible bonds in issue at the time the original Fallback Bond redeems (including any bond for which the redeemed bond is exchanged).

“Index” or “Indices” means the index or indices specified in the applicable Final Terms or any Successor Index as nominated pursuant to these Terms and Conditions.

“Index Sponsor” means, in relation to an Index, the entity that publishes or announces (directly or through an agent) the level of such Index.

“Reference Month” means, in respect of an Index, the calendar month for which the level of such Index was reported, regardless of when this information is published or announced. If the period for which the Index level was reported is a period other than a month, the Reference Month shall be the period for which the Index level was reported.

“Reference Price” means, in relation to the Relevant Determination Date, an amount (which shall be deemed to be an amount of the Specified Currency) equal to the official level of the Index as determined by the Calculation Agent on the Relevant Determination Date.

“Related Bond” means, in respect of an Index, the bond specified as such in the applicable Final Terms or, if no bond is so specified, the Fallback Bond. If the relevant Related Bond specified in the applicable Final Terms is “Fallback Bond”, then, for any Related Bond determination, the Calculation Agent shall use the Fallback Bond. If “Related Bond: Not Applicable” or no Related Bond is specified in the applicable Final Terms and “Fallback Bond: Not Applicable” is specified in the applicable Final Terms there will be no Related Bond. If a bond is selected as the Related Bond in the applicable Final Terms and that bond redeems or matures before the Maturity Date, unless “Fallback Bond: Not Applicable” is specified in the applicable Final Terms, the Calculation Agent shall use the Fallback Bond for any Related Bond determination.

“Relevant Determination Date” means, in respect of a Relevant Payment Date, the related Valuation Date.

“Relevant Payment Date” means each date specified as such in the applicable Final Terms or if none is so specified, each Interest Payment Date (if any) and/or the Maturity Date, as the case may be.

“Valuation Date” means the date specified in the applicable Final Terms.

## 11 Taxation

### (a) *Tax Gross-Up*

If Condition 11(a) is specified as applicable in the applicable Final Terms, all payments of principal and/or interest in respect of the Notes and Coupons by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other charges of whatever nature imposed, levied or collected by or on behalf of, in the case of payments by the Issuer, The Netherlands or, in the case of payments by the Guarantor, Belgium or, in either case, any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (i) the Noteholder or Couponholder of which is liable for such taxes, duties, assessments or other charges in respect of such Note or Coupon by reason of his having some connection with The Netherlands (in case of payments by the Issuer), or Belgium (in case of payments by the Guarantor) other than the mere holding of such Note or Coupon; or
- (ii) presented for payment in Belgium or through an intermediary in Belgium; or
- (iii) presented for payment in The Netherlands or through an intermediary in The Netherlands; or
- (iv) presented for payment by, or on behalf of, a Noteholder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so; or
- (v) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on such thirtieth day; or
- (vi) 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 Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vii) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 17.

### (b) *No Tax Gross-Up*

If Condition 11(b) is specified as applicable in the applicable Final Terms, neither the Issuer nor the Guarantor shall be liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, presentation and surrender for payment, or

enforcement of any Note and all payments made by the Issuer or, as the case may be, the Guarantor shall be made subject to any tax, duty, withholding or other payment which may be required to be made, paid, withheld or deducted.

## **12 Prescription**

The Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 11(a)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

## **13 Events of Default**

If any of the following events (each an “Event of Default”) should occur, the holder of this Note may, upon written notice of acceleration to the Agent, cause such Note to become due and payable at par (as described in Condition 5(a)), together with accrued interest thereon to the date of repayment, as of the date on which said notice of acceleration is received by the Agent, unless prior to such date the Issuer or the Guarantor, as the case may be, shall have cured or otherwise made good such Event of Default in respect of the Notes:

- (i) default by the Issuer in the payment when due of the principal of or interest on any of the Notes in respect of any Note or the delivery when due of any other amount in respect of any Note and the continuance of any such default for a period of 30 days after the due date; or
- (ii) the Issuer shall fail duly to perform or observe any other term, covenant or agreement contained in the Notes or the Guarantor shall fail to perform or observe any other term, covenant or agreement contained in the Guarantee relating to the Notes, in either case for a period of 90 days after the date on which written notice of such failure, requiring the Issuer or the Guarantor, as the case may be, to remedy the same, shall first have been given to the Agent by the holder of any Note at the time outstanding; or
- (iii) an order is made or an effective resolution passed for winding up the Issuer or the Guarantor except for the purpose of a reconstruction or amalgamation and the entity resulting from such reconstruction or amalgamation assumes all the rights and obligations of, as the case may be, the Issuer (including its obligations under the Notes) or the Guarantor (including its obligations under the Guarantee); or
- (iv) the Issuer or the Guarantor shall be unable to pay its debts or becomes insolvent or bankrupt or the Guarantor applies for a “*gerechtelijk akkoord*” or “*faillissement*” or any similar procedure shall be initiated in respect of the Issuer or the Guarantor unless it is being contested in good faith by the Issuer or the Guarantor, as the case may be; or
- (v) a distress, execution or other process is levied or enforced upon or sued out against all or any material part of the property of the Issuer or the Guarantor unless it is removed, discharged or paid out within 60 days or is being contested in good faith by the Issuer or the Guarantor, as the case may be.

## **14 Replacement of Notes, Coupons and Talons**

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in

connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **15 Agent, Paying Agents and Calculation Agent Provisions**

### *(a) Agent and Paying Agent*

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer or the Guarantor is incorporated;
- (iii) there will at all times be an Agent; and
- (iv) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive, save to the extent that such requirement is met by virtue of (ii) above.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 4(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 17.

### *(b) Calculation Agent Provisions*

Whenever the Calculation Agent is required to act or exercise judgement, it will do so in good faith and in a commercially reasonable manner. The Calculation Agent shall, as soon as practicable after making any determination pursuant to these Terms and Conditions, notify the Issuer, the Guarantor and the Noteholders of such determination. The Calculation Agent is not acting as a fiduciary for or as an advisor to the Noteholders in respect of its duties as Calculation Agent in connection with any Notes.

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to these Terms and Conditions shall (in the absence of manifest error) be final and binding on the Issuer, the Guarantor and the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent,

the Issuer and the Guarantor shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

## **16 Exchange of Talons**

On and after the Interest Period End Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 12.

## **17 Notices**

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London and (ii), if and for so long as the Notes are listed on the Luxembourg Stock Exchange, either in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu), or (ii), in the case of Notes not listed on a stock exchange, in a daily newspaper of general circulation in such place or places as the Issuer may deem appropriate. It is expected that such publication will be made (i) in the *Financial Times* in London and (ii) either in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg or on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or other relevant authority) on which the Notes are for the time being admitted to trading. Any such notice will be deemed to have been given on the date of the first publication in accordance with the above provisions.

Until such time as definitive Notes are issued, there may, so long as any Global Note(s) representing the Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s), the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange or any other applicable regulations so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules or in such other manner as may be permitted by those rules. In the case of Notes listed on the Luxembourg Stock Exchange, it is expected that such publication will be made either in the *Luxemburger Wort* or the *Tageblatt* in Luxembourg or on the website of the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu). Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **18 Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons, the Guarantee, the Deed of Covenant or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting, will

be one or more persons holding or representing a majority in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting, one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. The Agency Agreement provides that (a) a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the Agency Agreement contained by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75 per cent. of the votes given on such poll or (b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the principal amount of the Notes for the time being outstanding, all as more fully described in the Agency Agreement, shall, in each case, be effective as an Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Noteholders or pursuant to a resolution in writing shall be binding on all the Noteholders, whether or not they vote on such resolution, and on all Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:

- (i) any modification (except such modifications in respect of which an increased quorum is required, as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Coupons, the Agency Agreement, the Guarantee or the Deed of Covenant which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 17 as soon as practicable thereafter.

## **19 Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **20 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **21 Governing Law and Submission to Jurisdiction**

- (a) The Agency Agreement, the Notes (except Condition 2(iii)), the Guarantee (except Clause 6) and the Coupons (and, in each case, any non-contractual obligations arising therefrom or in connection therewith) shall be governed by, and construed in accordance with, English law. Condition 2(iii) of the

Notse, Clause 6 of the Guarantee and any non contractual obligations arising therefrom or in connection therewith shall be governed by, and construed in accordance with, Belgian law.

- (b) The Issuer agrees, for the exclusive benefit of the Noteholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes and/or the Coupons (including, in each case, any dispute relating to any non-contractual obligations arising therefrom or in connection therewith) and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Agency Agreement, the Notes and/or the Coupons (including, in each case, any Proceedings relating to any non-contractual obligation arising therefrom or in connection therewith) may be brought in such courts. The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Issuer appoints the Guarantor at its London branch at 111 Old Broad Street, London EC2N 1BR as its agent for service of process for Proceedings in England, and undertakes that, in the event of the Guarantor ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings in England. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer to assist the financing of the activities of the Guarantor or its affiliates to the extent permitted by applicable law. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## FORM OF THE GUARANTEE

THIS DEED OF GUARANTEE is made on 27 June 2012 by KBC Bank NV (the "**Guarantor**") in favour of (1) the Relevant Account Holders (as defined in the Deed of Covenant referred to below), (2) the holders for the time being of the Notes (as defined below) and the interest coupons (if any) appertaining to the Notes ("**Coupons**", such expression to include any talons for further Coupons issued in respect of any Notes), the Coupons being attached on issue to Definitive Note(s) (as defined below) and (3) the Accountholders (as defined in Clause 1 (B) below). Each Relevant Account Holder, each holder of a Note and each holder of a Coupon is a "**Holder**".

### WHEREAS:

- (A) KBC Internationale Financieringsmaatschappij N.V. (the "**Issuer**") and the Guarantor have entered into a Programme Agreement pursuant to which the Issuer may from time to time issue Notes with a denomination of at least €1,000 (or the equivalent in other currencies) (the "**Programme Agreement**", which expression includes the same as it may be amended, supplemented or restated from time to time) dated 27 June 2012 with the Dealers named therein under which the Issuer proposes from time to time to issue Notes (the "**Notes**", such expression to include each Definitive Note issued by the Issuer and each Global Note issued by the Issuer).
- (B) This Deed of Guarantee will apply to all Notes issued pursuant to the Issuer's €15,000,000,000 Retail Euro Medium Term Note Programme (the "**Retail Programme**") on or after the date hereof, other than any Notes issued so as to be consolidated and form a single Series with any Notes issued prior to the date hereof.
- (C) The Issuer has executed a Deed of Covenant on 27 June 2012 (the "**Deed of Covenant**", which expression includes the same as it may be amended, supplemented or restated from time to time) relating to Global Notes issued by the Issuer pursuant to the Programme Agreement.
- (D) The Issuer and the Guarantor have entered into an Agency Agreement (the "**Agency Agreement**", which expression includes the same as it may be amended, supplemented or restated from time to time) dated 27 June 2012 with KBL European Private Bankers S.A. (the "**Agent**") and the other agents named therein in relation to the Retail Programme.
- (E) Terms defined in the Conditions of the Notes (the "**Conditions**"), the Programme Agreement, the Agency Agreement and/or the Deed of Covenant and not otherwise defined in this Deed of Guarantee shall have the same meanings when used in this Deed of Guarantee.

NOW THIS DEED WITNESSES as follows:

### 1 Guarantee

- (A) Subject as set out in Clause 6, the Guarantor hereby unconditionally and irrevocably guarantees by way of deed poll to each Holder (i) all sums payable by the Issuer to such Holder or (ii) performance of any delivery obligation owed by the Issuer to such Holder, in each case in respect of any Note or any Coupon relating thereto or under the Deed of Covenant in respect thereof, as the case may be, (including any premium or any other amounts of whatever nature or additional amounts which may become payable under any of the foregoing) when and as the same shall become due and payable in accordance with the terms thereof. In case of the failure of the Issuer punctually (x) in the case of (i) above, to make any such payment, the Guarantor hereby undertakes to cause such payment to be made punctually when and as the same shall become due and payable and (y) in the case of (ii) above, to

perform or procure the performance of any delivery obligation, the Guarantor hereby undertakes to cause such performance or the procurement of such performance to occur punctually when and as the same shall become due to be performed, in each case whether at maturity, upon redemption by acceleration of maturity or otherwise, as if such payment or delivery, as the case may be, were made or performed by the Issuer in accordance with the terms thereof. The Guarantor hereby waives any requirement that any Holder, in the event of any default of such payment or delivery as the case may be by the Issuer, first makes demand upon or seeks to enforce remedies against the Issuer before seeking to enforce this Guarantee; agrees that its obligations under this Guarantee shall be unconditional and irrevocable irrespective of the validity, regularity or enforceability of such Notes or of such Coupons or of the Deed of Covenant in respect thereof, the absence of any action to enforce the same, any waiver or consent by any Holder with respect to any provisions thereof, the recovery of any judgment against the Issuer or any action to enforce the same, any consolidation, merger, conveyance or transfer by the Issuer or any other circumstance which might otherwise constitute a legal or equitable discharge or defence of a guarantor; and covenants that this Guarantee will not be discharged except by complete performance of the obligations contained in such Notes, such Coupons, the Deed of Covenant and this Guarantee.

- (B) For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Guarantor as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Guarantor as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Agent.

The Guarantor covenants in favour of each Accountholder that it will (i) make all payments (if any) under this Guarantee in respect of the principal amount of Notes for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as being held by the Accountholder and represented by a Global Note to the holder of the Global Note and (ii) perform or procure the performance of all delivery obligations (if any) in accordance with the Conditions, in each case, in accordance with the terms of this Guarantee and acknowledges that each Accountholder may take proceedings to enforce this covenant and any of the other rights which it has under this Guarantee directly against the Guarantor.

## **2 The Guarantor as principal Debtor**

Without affecting the Issuer's obligations, the Guarantor will be liable under this Guarantee as if it were the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including (a) any time, indulgence, waiver or consent at any time given to the Issuer or any other person, (b) any amendment to any Note, any Coupon or the Deed of Covenant or to any security or other guarantee or indemnity, (c) the making or absence of any demand on the Issuer or any other person for payment, (d) the enforcement or absence of enforcement of any Note, any Coupon, the Deed of Covenant or of any security or other guarantee or indemnity, (e) the release of any such security, guarantee or indemnity, (f) the dissolution,

amalgamation, reconstruction or reorganisation of the Issuer or any other person or (g) the illegality, invalidity or unenforceability of or any defect in any provision of any Note, any Coupon or the Deed of Covenant or any of the Issuer's obligations under any of them).

### **3 The Guarantor's obligations continuing**

The Guarantor's obligations under this Guarantee are and will remain in full force and effect by way of continuing security until no sum remains payable or delivery obligation in respect of any Note, any Coupon or the Deed of Covenant remains owing. Furthermore, these obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of a Holder, whether from the Guarantor or otherwise. The Guarantor irrevocably waives all notices and demands whatsoever.

### **4 Repayment to the Issuer**

If any payment or other consideration received by a Holder is, on the subsequent liquidation or insolvency of the Issuer, avoided under any laws relating to liquidation or insolvency, such payment or other consideration will not be considered as having discharged or diminished the liability of the Guarantor and this Guarantee will continue to apply as if such payment or other consideration had at all times remained owing by the Issuer.

### **5 Indemnity**

As a separate and alternative stipulation, the Guarantor unconditionally and irrevocably agrees that any sum expressed to be payable or delivery obligation expressed to be owed by the Issuer under any Note, any Coupon or the Deed of Covenant but which is for any reason (whether or not now known or becoming known to the Issuer, the Guarantor or any Holder) not recoverable from the Guarantor on the basis of a guarantee will nevertheless be recoverable from it as if it were the sole principal debtor and will be paid by it to the Holder or otherwise delivered by it on demand. This indemnity constitutes a separate and independent obligation from the other obligations in this Guarantee, gives rise to a separate and independent cause of action and will apply irrespective of any indulgence granted by any Holder.

### **6 Status of Guarantee**

The obligations of the Guarantor under this Guarantee in respect of the Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Guarantor (including those arising under deposits received in its banking business), without any preference among themselves and *pari passu* without any preference one above the other by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.

### **7 Withholding or reduction**

If Condition 11(a) is specified as applicable in the applicable Final Terms, all payments by the Guarantor under this Guarantee will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other charges of whatever nature imposed, levied or collected by or on behalf of Belgium, or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the relevant Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been

receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Coupon or Underlying Note (as defined in the Deed of Covenant):

- (i) to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or other charges in respect of such Note, Coupon or Underlying Note by reason of his having some connection with Belgium other than the mere holding of such Note, Coupon or Underlying Note; or
- (ii) presented for payment in Belgium or through an intermediary in Belgium; or
- (iii) to, or to a third party on behalf of, a Holder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so; or
- (iv) if demand for payment is made more than 30 days after the Relevant Date (as defined in Condition 11(a)) except to the extent that the Holder would have been entitled to such additional amount on presenting the same for payment on such thirtieth day; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) to, or to a third party on behalf of, a Relevant Account Holder who would have been able to avoid such withholding or deduction by presenting the Note, Coupon or Underlying Note to another Paying Agent in a Member State of the European Union.

## **8 Power to execute**

The Guarantor hereby warrants, represents and covenants with each Holder and Accountholder that it has all power, that it has obtained all necessary governmental consents and authorisations, and that it has taken all necessary steps, in each case to enable it to execute, deliver and perform this Guarantee and that this Guarantee constitutes legal, valid and binding obligations of the Guarantor in accordance with its terms.

## **9 Deposit of guarantee**

This Guarantee shall take effect as a deed poll for the benefit of the Holders and Accountholders from time to time and for the time being. This Guarantee shall be deposited with and held by KBL European Private Bankers S.A. as Agent until all the obligations of the Guarantor have been discharged in full.

## **10 Production of guarantee**

The Guarantor hereby acknowledges the right of every Holder and Accountholder to the production of, and the right of every Holder and Accountholder to obtain (upon payment of a reasonable charge) a copy of, this Guarantee, and further acknowledges and covenants that the obligations binding upon it contained herein are owed to, and shall be for the account of, each and every Holder and Accountholder, and that each Holder and Accountholder shall be entitled severally to enforce the said obligations against the Guarantor.

## **11 Subrogation**

Until all amounts which may be payable under the Notes, the Coupons and/or the Deed of Covenant have been irrevocably paid in full and all delivery obligations of the Issuer thereunder have been performed in full,

the Guarantor shall not by virtue of this Guarantee be subrogated to any rights of any Holder or claim in competition with the Holders against the Issuer.

## 12 Contracts (rights of third parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Guarantee, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 13 Governing law and jurisdiction

- (i) This Guarantee (and any non-contractual obligations arising out of or in connection with this Guarantee), except Clause 6, shall be governed by, and construed in accordance with, English law. Clause 6 of this Guarantee (and any non-contractual obligations arising out of or in connection with Clause 6 of this Guarantee) shall be governed by, and construed in accordance with, Belgian law.
- (ii) The Guarantor agrees, for the exclusive benefit of the Holders and the Accountholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee (including any dispute relating to any non-contractual obligations arising out of or in connection with this Guarantee) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with this Guarantee (including any Proceedings relating to any non-contractual obligation arising out of or in connection with this Guarantee) may be brought in such courts. The Guarantor hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Clause shall limit any right to take Proceedings against the Issuer or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Guarantor undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint a person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

IN WITNESS whereof this Guarantee has been manually executed as a deed poll on behalf of the Guarantor.

Executed as a deed by

KBC Bank NV

acting by

acting under the

authority of that company

in the presence of:

Witness's Signature:

Name:

Address:

Dated 27 June 2012

## DESCRIPTION OF THE ISSUER

### **KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V.**

KBC Internationale Financieringsmaatschappij N.V. (the “Issuer” or “KBC IFIMA N.V.”), a wholly owned subsidiary of the Guarantor, was incorporated in the Netherlands on 15th April, 1982 as a limited liability company under the laws of the Netherlands. The Issuer is registered with the trade register of the Dutch chambers of commerce under number 33.168.630 and has its corporate seat at Rotterdam, The Netherlands. The registered office of the Issuer is at Watermanweg 92, 3067 GG Rotterdam, The Netherlands and its telephone number is +31 (0)10 4367146. The principal activity of the Issuer is to assist in the financing of the activities of companies belonging to the KBC Bank Group (as defined on page 1) by raising debt to be on-lent to the Guarantor and the other members of the KBC Bank Group. The Issuer is accordingly dependent on the Guarantor and other members of the KBC Bank Group servicing those loans. Other than the foregoing activities and the issuance of securities under the Issuer’s U.S.\$10,000,000,000 Global Structured Note Programme established on 23rd May, 2008, the Issuer has not engaged, since its incorporation, in any material activities other than those relating to the described issue of securities and the authorisation of documents and agreements related thereof to which it is, or will be, a party. Since the Issuer is a wholly owned finance subsidiary of the Guarantor, it does not “compete” in any market.

### **Management**

The Issuer is managed by a Management Board, which is supervised by a Supervisory Board. The members of the Management Board and the members of the Supervisory Board may be appointed by the General Meeting of Shareholders.

### **Management Board**

| <b>Name</b>    | <b>Business address</b>                                  | <b>Position</b>   | <b>Principal activities outside KBC IFIMA N.V.</b> |
|----------------|--|-------------------|--|
| J.G. Heffernan | Watermanweg 92,<br>3067 GG Rotterdam,<br>The Netherlands | Director          | None   |
| H.B.J. Wouters | Watermanweg 92,<br>3067 GG Rotterdam,<br>The Netherlands | Managing Director | None   |

### **Supervisory Board**

|                   |  |                      |   |
|-------------------|--|----------------------|---|
| P.T.M. Roppe      | Watermanweg 92,<br>3067 GG Rotterdam,<br>The Netherlands | Supervisory Director | None  |
| Dirk C.M. Mampaey | Watermanweg 92,<br>3067 GG Rotterdam,<br>The Netherlands | Supervisory Director | Director of KBC Bank NV<br>Corporate Services<br><br>Director and Chairman of the<br>Board of Directors of<br>Antwerpse Diamantbank NV<br>Director of KBC Ireland Plc |

Director of IIB Finance  
Ireland

Chairman of the Board of  
Directors of KBC Finance  
Ireland Plc

Director of KBC Deutschland  
AG

Director and Chairman of the  
Board of Directors of KBC  
Real Estate NV

Director of Covent Garden  
Real Estate NV

Director of Old Broad Street  
Invest NV

Director and Chairman of the  
Board of Directors of Immo-  
Antares NV

Director and Chairman of the  
Board of Directors of Apitri  
NV

Director and Chairman of the  
Board of Directors of Immo-  
Basilix NV

Director and Chairman of the  
Board of Directors of Brussels  
North Distribution NV

Director of Immo NamOtt  
Tréfonds NV

Director and Chairman of the  
Board of Directors of KBC  
Vastgoedportefeuille België  
NV

Director and Chairman of the  
Board of Directors of KBC  
Vastgoedinvesteringen NV

Director and Chairman of the  
Board of Directors of Immo  
Lux-Airport NV

Director and Chairman of the  
Board of Directors of  
Luxembourg North  
Distribution NV

Director and Chairman of the

Board of Directors of Immo  
Marcel Thiry NV

Director and Chairman of the  
Board of Directors of  
Mechelen City Center NV

Director and Chairman of the  
Board of Directors of  
Vastgoed Ruimte Noord NV

Director and Chairman of the  
Board of Directors of Immo-  
Zénobe Gramme NV

Director of Immobiliare  
Novoli S.p.A.

Director and Chairman of the  
Board of Directors of KBC  
Commercial Finance

Director of Commercial Bank  
“Absolut Bank” (ZAO)

Director of Gebema NV

There are no potential conflicts of interest between the duties to KBC IFIMA N.V. of the members of the Management Board or the Supervisory Board respectively and their private interests or other duties.

KBC IFIMA N.V. complies with the laws and regulations of the Netherlands regarding corporate governance.

#### **Audit committee**

The Issuer has no audit committee. However, as a wholly owned subsidiary of KBC Bank, it complies with the control requirements and standards of the Group with regard to accounting, operations, internal controls and risk management. Furthermore, the Issuer is subject to audits carried out periodically by the internal audit department of the Group.

#### **Auditor**

As of 1<sup>st</sup> January, 2001 the auditors of KBC Internationale Financieringsmaatschappij N.V. are Ernst & Young Accountants LLP, Prof. Dr. Dorgelolaan 12, 5613 AM Eindhoven, The Netherlands.

#### **Historical Information**

The Issuer publishes annual non-consolidated audited financial statements and semi-annual non-consolidated unaudited financial statements. The Issuer is exempted from preparing consolidated financial statements pursuant to the exemption for subholdings contained in article 2:408 of the Dutch Civil Code. Investors should note that, since the Issuer is not subject to Capital Adequacy Directive requirements, information relating to credit quality and regulatory capital of the Issuer is not available and therefore it is not included in this Base Prospectus.

As from 31<sup>st</sup> May, 2012 a copy of the annual accounts of the Issuer is deposited at the trade register of the chamber of commerce for Rotterdam, The Netherlands and is available to the public and incorporated by reference herein, as indicated in the section titled "Documents Incorporated by Reference" above.

### **Organisational Structure**

The Issuer is a wholly-owned subsidiary of the Guarantor and its debt is fully guaranteed by the Guarantor. Since the relations between the Issuer, the Guarantor and KBC Group are intra-group relations, there are no specific measures in place to ensure that control of the Issuer is not abused. As such, the Issuer complies with the control requirements and standards of the KBC Bank Group with regard to accounting, operations, internal controls and risk management. Furthermore, the Issuer is subject to audits carried out periodically by the internal audit department of the KBC Bank Group.

### **Share Capital**

The authorised share capital of KBC IFIMA N.V. is €22,689,000 divided into 50,000 common shares of €453.78 each. The issued share capital (which is fully paid up) of KBC IFIMA N.V. is €4,803,264 divided into 10,585 ordinary shares of €453.78 each, which are fully held by the Guarantor.

There have been no movements in the issued share capital during 2010 and 2011.

### **Corporate Objects**

The corporate objects of KBC IFIMA N.V. are set out in Article 2 of its Articles of Association. They include the raising of monies by entering into public or private loans and the re-lending of such monies to other companies in the KBC Bank Group. A copy of the Articles of Association is available for inspection at the registered office of KBC IFIMA N.V.

## BALANCE SHEET OF KBC IFIMA N.V.

(after appropriation of profit)

The following table sets out the audited Balance Sheet of the Issuer for the years ended 31st December 2009, 2010 and 2011

|   | <b>31st December,<br/>2009</b> | <b>31st December,<br/>2010</b> | <b>31st December,<br/>2011</b> |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | <i>(euro)</i>                  | <i>(euro)</i>                  | <i>(euro)</i>                  |
| <b>Fixed assets</b>                             |                                |                                |                                |
| Tangible fixed assets.....                      | -                              | -                              | 2,218                          |
| Intangible fixed assets.....                    | -                              | -                              | -                              |
| Financial fixed assets.....                     | 18,404,997,458                 | 17,621,750,441                 | 16,723,834,552                 |
| Long term bank deposit .....                    | 4,803,264                      | 4,803,264                      | 4,803,264                      |
| Derivatives.....                                | 1,166,694,895                  | 974,996,264                    | 1,196,683,130                  |
|   | <u>19,576,495,617</u>          | <u>18,717,126,737</u>          | <u>18,034,680,789</u>          |
| <b>Current Assets</b>                           |                                |                                |                                |
| Derivatives                                     | Nil                            | 115,576,768                    | 109,357,625                    |
| Loans falling due within one year.....          | 4,262,106,385                  | 4,812,895,175                  | 4,736,495,814                  |
| Interest receivables and accrued expenses ..... | 112,752,204                    | 152,965,053                    | 229,805,648                    |
| Cash.....                                       | 6,037,149                      | 5,821,627                      | 4,462,402                      |
|   | <u>4,380,895,738</u>           | <u>4,971,681,855</u>           | <u>4,970,763,864</u>           |
| <b>Total assets</b> .....                       | <u><u>23,957,391,355</u></u>   | <u><u>23,688,808,592</u></u>   | <u><u>23,005,444,653</u></u>   |
|   | <b>31st December,<br/>2009</b> | <b>31st December,<br/>2010</b> | <b>31st December,<br/>2011</b> |
|   | <i>(euro)</i>                  | <i>(euro)</i>                  | <i>(euro)</i>                  |
| <b>Capital and reserves</b>                     |                                |                                |                                |
| Paid-in and called-up share capital .....       | 4,803,264                      | 4,803,264                      | 4,803,264                      |
| Retained earnings.....                          | 4,331,194                      | 3,876,988                      | 3,864,725                      |
| Net profit for the year .....                   | 4,745,794                      | 4,737,737                      | 4,242,008                      |
|   | <u>13,880,252</u>              | <u>13,417,989</u>              | <u>12,909,997</u>              |
| <b>Provisions</b>                               |                                |                                |                                |
| Provisions for pension obligations .....        | 353,339                        | 281,636                        | 80,239                         |
| <b>Long-term liabilities</b> .....              | 18,411,481,110                 | 17,629,645,367                 | 16,730,610,610                 |
| Derivatives.....                                | 1,166,694,895                  | 974,996,264                    | 1,196,683,130                  |

|  | <b>31st December,<br/>2009</b> | <b>31st December,<br/>2010</b> | <b>31st December,<br/>2011</b> |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <i>(euro)</i>                  | <i>(euro)</i>                  | <i>(euro)</i>                  |
| <b>Current Liabilities</b>                     |                                |                                |                                |
| Derivatives                                    | Nil                            | 115,576,768                    | 109,357,625                    |
| Issued bonds falling due within one year ..... | 4,254,715,459                  | 4,805,116,191                  | 4,730,082,009                  |
| Other current liabilities .....                | 110,266,300                    | 149,774,377                    | 225,721,043                    |
|  | 4,364,981,759                  | 4,954,890,568                  | 4,955,803,052                  |
| <b>Total liabilities</b> .....                 | <u>23,957,391,355</u>          | <u>23,688,808,592</u>          | <u>23,005,444,653</u>          |

### PROFIT AND LOSS ACCOUNT OF KBC IFIMA N.V.

The following table sets out the audited Profit and Loss Account of the Issuer for the years ended 31st December 2009, 2010 and 2011.

|   | <b>31st December<br/>2009</b> | <b>31st December<br/>2010</b> | <b>31st December,<br/>2011</b> |
|---|-------------------------------|-------------------------------|--------------------------------|
|   | <i>(euro)</i>                 | <i>(euro)</i>                 | <i>(euro)</i>                  |
| <b>Net income from financing activities</b> |                               |                               |                                |
| Interest income .....                       | 537,769,814                   | 446,320,742                   | 625,948,468                    |
| Interest expense .....                      | (530,884,900)                 | (439,589,205)                 | (619,983,045)                  |
| <b>Gross Margin</b> .....                   | <u>6,884,914</u>              | <u>6,731,537</u>              | <u>5,965,423</u>               |
| Gain on financial transactions .....        | —                             | —                             | —                              |
| Change in fair value of derivatives .....   | —                             | —                             | —                              |
| Other (interest) income .....               | 9,142                         | —                             | —                              |
| General and administrative expenses .....   | (796,132 )                    | (555,626)                     | (480,815)                      |
| Depreciation of fixed assets .....          | (24,165 )                     | —                             | (117)                          |
| Exchange rate differences .....             | (16,576 )                     | 3,154                         | 12,940                         |
| Income from participating interests .....   | 199,065                       | 97,596                        | 111,183                        |
| <b>Profit before taxation</b> .....         | <u>6,256,248</u>              | <u>6,276,661</u>              | <u>5,608,614</u>               |
| Corporation tax .....                       | (1,510,454 )                  | (1,538,924)                   | (1,366,606)                    |
| <b>Net profit for the period</b> .....      | <u>4,745,794</u>              | <u>4,737,737</u>              | <u>4,242,008</u>               |

## **SELECTED FINANCIAL INFORMATION OF KBC IFIMA N.V.**

The net profit after tax for the year ended 31st December, 2011 amounted to €4,242,008. The net profit after tax for the year ended 31st December, 2010 amounted to €4,737,737.

An interim dividend of €4,000,000 out of net profit for 2011 was paid on 2<sup>nd</sup> January, 2012; the dividend will be proposed for ratification by the Annual General Meeting of Shareholders on 29<sup>th</sup> May 2012. An interim dividend of €4,250,000 out of net profit for 2010 was paid on 3<sup>rd</sup> January, 2011; a second interim dividend amounting to €500,000 out of retained earnings was paid on 21st January, 2011. Both dividends have been ratified by the Annual General Meeting of Shareholders on 16<sup>th</sup> June, 2011. During 2011, the Issuer issued notes amounting in total to €4,309,913,273 compared to €4,275,853,419 in 2010. During 2011, the interest income of the Issuer increased to €625,948,468 compared to €446,320,742 in 2010. The solvency ratio was 0.06 per cent. as at 31st December, 2011 and as at 31st December, 2010. The liquidity ratio (current assets to current liabilities) was 1 as at 31st December, 2011 and as at 31st December, 2010.

## DESCRIPTION OF THE GUARANTOR

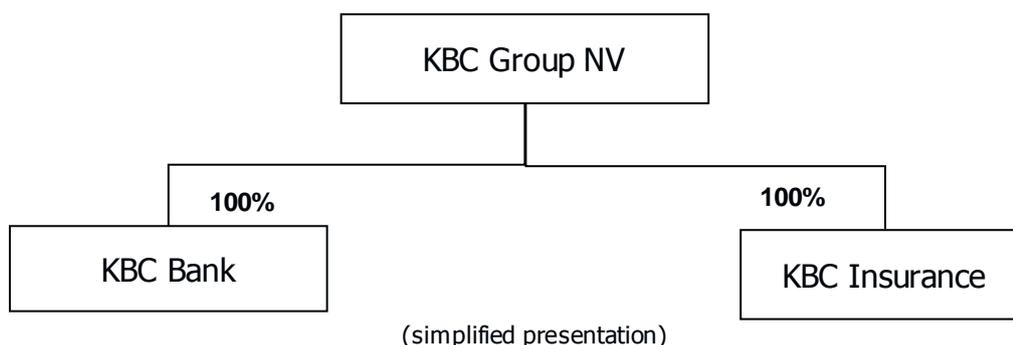
### KBC BANK

#### 1 Creation

KBC Bank NV (“KBC Bank”), a wholly-owned subsidiary of KBC Group NV (“KBC Group”), was established in Belgium in 1998 as a bank (with number BE-0462.920.226) and operates under the laws of Belgium having its registered office is at Havenlaan 2, B-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154. Since the relations between KBC Bank and KBC Group are intra-group relations, there are no specific measures in place to ensure that control of KBC Bank is not abused.

Simplified, KBC Bank was initially formed through the merger of the banking operations of the Almanij-Kredietbank group and CERA Bank group (“CERA”). The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank. KBC Bank is registered as a credit institution with the National Bank of Belgium (the “NBB”).

A simplified schematic of KBC Group’s legal structure is provided below (KBL European Private Bankers SA was excluded from this scheme, in view of the signed sale agreement for this company). KBC Bank NV and KBC Insurance NV each have a number of subsidiaries, a list of which is available in KBC Group’s 2011 Annual Report.



As at the end of December 2011, there were 915,228,482 ordinary shares of KBC Bank, one of which is held by (its sister company) KBC Insurance NV and the remainder of which are held by KBC Group. KBC Group’s shares are listed on NYSE Euronext Brussels and the Luxemburg Stock Exchange.

In view of the developments relating to the global economic and the financial turmoil in the past years, and as a result of the subsequent acceptance of financial support from the Belgian State and Flemish Region, KBC Group was required to submit a restructuring plan for review and approval by the European Commission. The European Commission approved the plan on 18th November, 2009. This government support and restructuring plan (the “strategic plan”) is discussed further on.

#### 2 Management structure

The management structure of the Group and of KBC Bank Group (as defined on page 1) is built around a number of Business Units: Belgium, Central & Eastern Europe, Merchant Banking and Shared Services & Operations. Each Business Unit is headed by a Chief Executive Officer (“CEO”), and these CEOs, together with the Group CEO, the Group Chief Risk Officer (“CRO”) and the Group Chief Financial Officer (“CFO”), constitute the executive committee of KBC Group.

The Business Units are described further below. The comments will focus on the (parts of the) business units that are relevant for KBC Bank Group. The Shared Services & Operations Business Unit provides support to and serves as a product provider for the other Business Units. It encompasses a number of divisions that provide products and services to the entire Group. The expenses and income of the Shared Services & Operations Business Unit are passed on to the other Business Units and consequently are reflected in their results. The main divisions belonging to this unit are Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

Set out below is a simplified overview of the activities and geographical reach of the other three Business Units:

|                                    | <b>Belgium Business Unit</b>     | <b>Central &amp; Eastern Europe Business Unit</b>  | <b>Merchant Banking Business Unit</b>                                      |
|------------------------------------|----------------------------------|--|--|
| Main activities                    | Retail and private bancassurance | Retail and private bancassurance and merchant banking  | Corporate banking and market activities                                    |
| Geographical area (main countries) | Belgium                          | Home countries: Czech Republic, Slovakia, Hungary, Bulgaria<br>Other countries: Poland, Russia, Serbia | Belgium and selected countries in Europe, North-America and Southeast-Asia |

A list of all major companies that belong to the legal entity KBC Bank is provided further on. Note that KBC Group's strategic plan (which evidently also impacts KBC Bank), among other things, includes a planned divestment of a number of KBC Bank Group companies.

*Note also that in KBC Group's and KBC Bank's financial reports as of 2010 and as of 2011, the results of all companies that are planned for divestment, are moved from their respective business units to a so-called "Group Centre".*

### 3 Short presentation of KBC Bank Group

| <b>Shareholders of KBC Group*<br/>(as at 31st December, 2011)</b> | <b>Number of shares</b> |
|---|-------------------------|
| KBC Ancora .....  | 82,216,380              |
| Cera .....  | 26,127,166              |
| MRBB .....  | 46,289,864              |
| Other core shareholders .....                                     | 39,202,997              |
| <b>Subtotal for core shareholders .....</b>                       | <b>193,836,407</b>      |
| KBC group companies.....  | 18,169,054              |
| Free float.....   | 145,974,852             |
| <b>Total .....</b>  | <b>357,980,313</b>      |

\* For the core shareholders, this is the situation stated in the most recent notifications made under the Belgian transparency rules or (if more recent) disclosures made under the Belgian law on public takeover bids. For KBC group companies, this is the situation on 31 December 2011. Further updates regarding the shareholder structure of KBC Group NV can be found on [www.kbc.com](http://www.kbc.com) under "Investor relations – shareholder structure".

| <b>Shareholders of KBC Bank<br/>(as at 31st December, 2011)</b> | <b>Number of<br/>shares</b> |
|---|-----------------------------|
| KBC Group.....  | 915,228,481                 |
| KBC Insurance .....   | 1                           |
| <b>Total.....</b>   | <b>915,228,482</b>          |

| <b>Consolidated balance sheet data<br/>(in millions of EUR, IFRS)</b> | <b>31st December,<br/>2009</b> | <b>31st December,<br/>2010</b> | <b>31st December,<br/>2011</b> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Total assets .....  | 281,613                        | 276,723                        | 241,076                        |
| Parent shareholders' equity.....                                      | 12,168                         | 13,193                         | 11,117                         |

| <b>Consolidated profit and loss account data<br/>(in millions of EUR, IFRS)</b> | <b>FY2009</b> | <b>FY2010</b> | <b>FY2011</b> |
|---|---------------|---------------|---------------|
| Total income .....  | 3,907         | 6,995         | 6,119         |
| Operating expenses .....  | -4,241        | -3,861        | -3,709        |
| Impairment.....   | -2,400        | -1,635        | -1,659        |
| Result after tax, group share .....   | -2,491        | 1,395         | 347           |

#### 4 Network and ratings of KBC Bank Group

##### Network (as at 31st December, 2011)

|   |     |
|---|-----|
| Bank branches in Belgium.....   | 844 |
| Bank branches in Central and Eastern Europe (five core markets, i.e. excluding Russia and Serbia) ..... | 806 |
| Bank branches in the rest of the world (incl. rep. offices) .....                                       | 24* |

##### Long-term ratings of KBC Bank (as at 27 June 2012)

|   |                     |
|---|---------------------|
| Fitch France S.A.S. ("Fitch")                               | A- (stable outlook) |
| Moody's France S.A.S. ("Moody's")                           | A3 (stable outlook) |
| Standard & Poor's Credit Market Services Italy Srl. ("S&P") | A- (stable outlook) |

\*including corporate branches of KBC Bank, KBC Bank Deutschland and KBC Bank Ireland.

*Ratings can change. Various ratings exist. Investors should look at [www.kbc.com](http://www.kbc.com) for the most recent ratings and for the underlying full analysis of each rating agency to understand the meaning of each rating.*

Each of Fitch, Moody's and S&P is established in the European Union and is included in the updated list of credit rating agencies registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies published on the European

Securities and Markets Authority (“ESMA”)’s website (<http://esma.europa.eu/page/List-registered-and-certified-CRAs>).

## 5 Main companies belonging to KBC Bank (as of 31st December, 2011)

| Company   | Registered office | Ownership percentage at KBC Bank Level | Activity (simplified)                   |
|---|-------------------|--|---|
| <b>Main fully consolidated subsidiaries</b>                 |                   |  |   |
| Absolut Bank .....  | Moscow – RU       | 99.00                                  | Credit Institution                      |
| Antwerpse Diamantbank NV .....                              | Antwerp – BE      | 100.00                                 | Credit institution                      |
| CBC Banque SA .....   | Brussels – BE     | 100.00                                 | Credit institution                      |
| CIBANK AD .....   | Sofia - BG        | 100.00                                 | Credit Institution                      |
| ČSOB a.s. (Czech Republic).....                             | Prague – CZ       | 100.00                                 | Credit institution                      |
| ČSOB a.s. (Slovak Republic).....                            | Bratislava – SK   | 100.00                                 | Credit Institution                      |
| KBC Asset Management NV .....                               | Brussels – BE     | 51.86                                  | Asset management                        |
| KBC Bank Deutschland AG .....                               | Bremen – DE       | 100.00                                 | Credit institution                      |
| KBC Bank Funding LLC & Trust (group).....                   | New York – US     | 100.00                                 | Issuance of trust preferred securities  |
| KBC Bank Ireland Plc. ....                                  | Dublin - IE       | 100.00                                 | Credit Institution                      |
| KBC Clearing NV.....  | Amsterdam – NL    | 100.00                                 | Clearing                                |
| KBC Commercial Finance.....                                 | Brussels – BE     | 100.00                                 | Factoring                               |
| KBC Commercial Finance .....                                | Brussels – BE     | 100.00                                 | Consumer finance                        |
| KBC Credit Investments NV .....                             | Brussels – BE     | 100.00                                 | Investments in credit-linked securities |
| KBC Finance Ireland .....                                   | Dublin – IE       | 100.00                                 | Lending                                 |
| KBC Financial Products (group).....                         | Various locations | 100.00                                 | Shares and derivatives trading          |
| KBC Internationale Financieringsmaatschappij NV .....       | Rotterdam – NL    | 100.00                                 | Issuance of bonds                       |
| KBC Lease (group).....                                      | Various locations | 100.00                                 | Leasing                                 |
| KBC Private Equity NV.....                                  | Brussels – BE     | 100.00                                 | Private equity                          |
| KBC Real Estate NV .....                                    | Brussels – BE     | 100.00                                 | Real estate                             |
| KBC Securities NV.....                                      | Brussels – BE     | 100.00                                 | Stock exchange broker/corporate finance |
| K&H Bank Rt. ....   | Budapest – HU     | 100.00                                 | Credit institution                      |
| Kredyt Bank SA.....   | Warsaw – PL       | 80.00                                  | Credit institution                      |
| <b>Main proportionately consolidated subsidiaries</b>       |                   |  |   |
| -   | -                 | -                                      | -                                       |
| <b>Main companies accounted for using the equity method</b> |                   |  |   |
| Nova Ljubljanska banka d.d. (NLB) .....                     | Ljubljana – SI    | 25.00                                  | Credit institution                      |

A full list of companies belonging to KBC Bank is provided in its 2011 Annual Report.

## **6 General description of activities of KBC Bank Group**

KBC Bank Group is a multi-channel bank that caters primarily to private persons, small and medium-sized companies and midcaps. Its geographic focus is on Europe. In its two home markets (Belgium and Central and Eastern Europe), it has important to (in some cases) even leading positions. In some markets, according to the strategic plan, it aims to position itself among the market leaders and in those markets it adopts a general approach. In other markets, it will operate as a 'selective champion' and focus on specific customer/product segments. In the rest of the world, KBC Bank Group has a selective presence in certain countries or areas.

KBC Bank Group's core business is retail and private bancassurance (including asset management) in its two home markets, although it is also active in providing services to corporations and market activities. Across these home markets, KBC Bank Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and insurance businesses (via its sister company, KBC Insurance), to specialized activities (which are conducted out of specialized departments at head office or specialized KBC Bank Group companies) such as payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, clearing, foreign trade finance, international cash management and leasing etc.

As set out in the strategic plan, the KBC Bank Group is refocusing its business on its core bancassurance activities in Belgium and a number of countries in Central and Eastern Europe (the home markets, i.e. Czech Republic, Slovakia, Hungary and Bulgaria). Therefore, a number of subsidiaries and activities, many of which related to investment banking activities, have been or are planned to be built down or sold in the coming years. International corporate lending outside the home markets is being downscaled.

The progress of the execution of this strategic refocusing exercise is commented upon in the 2011 Annual Reports of KBC Bank and KBC Group and (in an abbreviated form) further on in this section. In 2010, 2011 and early 2012, a number of divestment transactions were carried out, including the divestment of, *inter alia*, a large number of activities of KBC Financial Products (US reverse mortgage portfolio, Japanese cash equity operations, US life settlement portfolio, convertible bond and Asian equity derivatives), KBC Peel Hunt, British and Irish activities of KBC Asset Management, KBC Securities Baltic investment Company, KBC Business Capital, Secura (subsidiary of KBC Insurance, a sister company of KBC Bank), Centea, Fidea (subsidiary of KBC Insurance, a sister company of KBC Bank), KBL European Private Bankers (sister company of KBC Bank, deal not yet closed), KBC Concord Asset Management, KBC Goldstate, the activities of KBC Securities in Serbia and Romania and WARTA (subsidiary of KBC Insurance, a sister company of KBC Bank ; not yet closed). In February 2012, KBC announced that it had concluded an agreement with Banco Santander S.A. with regard to the merger of the respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank (subsidiary of KBC Bank), ultimately with the aim to sell KBC's shareholding in the merged bank (deal not yet closed). In addition, the gradual run-down of the credit portfolio outside the home markets is progressing well and a number of other projects are being prepared.

## **7 Belgium Business Unit**

This Business Unit brings together all of the Group's retail and private banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance and the activities of a number of Belgian subsidiaries of KBC Bank and KBC Insurance.

The main KBC Bank Group entities belonging to this Business Unit in 2011 are CBC Banque, KBC Asset Management, KBC Lease (retail), KBC Consumer Finance and the Belgian retail and private banking activities of KBC Bank. Centea also belongs to the Belgium Business Unit but, as it is earmarked for divestment, its results were shifted to the “Group Centre” in KBC Group’s 2010 Annual Report (an agreement for its sale was signed mid March 2011).

## Network

| <b>Bank network in Belgium<br/>(as at 31st December, 2011)*</b> | <b>Market<br/>share</b> | <b>Retail and<br/>Private<br/>Bank<br/>Branches</b> |
|---|-------------------------|---|
| KBC Bank, CBC Banque .....                                      | 19                      | 818   |

\* Figures for market share relate to customer deposits and credits (average of the two); figures for market shares are own KBC Bank estimates.

At the end of 2011, KBC Bank Group had a network of over 800 retail branches and private banking branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The 26 corporate branches in Belgium are mentioned further on, under the Merchant Banking Business Unit section. Up to its sale mid 2011, the Belgian retail market was also catered to by the agencies of the retail savings bank Centea, a subsidiary of KBC Bank at that time, which was sold to Landbouwkrediet/Crédit Agricole on 1 July 2011.

The retail branches of KBC Bank and CBC Banque focus on providing private persons and small SMEs in Belgium with a broad area of credit, deposit and asset management products and services, as well as insurance products (in co-operation with KBC Bank’s sister company, KBC Insurance).

The private banking branches of KBC Bank and CBC Banque offer high-net-worth customers a broad range of private banking services. Via these branches, KBC Bank provides both advisory and discretionary portfolio management services, tailored to clients’ individual needs and objectives.

KBC Bank and CBC Banque serve, based on its own estimates, over 3 million customers in Belgium.

## Bancassurance

The Group considers itself to be an integrated bancassurer. Certain shared and support services are organised at group level, serving the entire Group, and not just the bank or insurance businesses separately. It is the Group’s aim to continue to actively encourage the cross-selling of bank and insurance products. The success of the 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 the insurance agents, the call centre and the head office departments at KBC Insurance.

## Market share

As of 31st December, 2011, KBC Bank Group had, based on its own estimates, an 17 per cent. share of the Belgian deposit market and a 21 per cent. share of the lending market Over the past few years, KBC Bank

Group has built up a strong position in investment funds too, and leads the Belgian market with an estimated share of 39 per cent.

### Electronic channels

KBC Bank Group's brick-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet.

### Main events in 2011 and early 2012 (up to 10 May 2012)

Reference is made to KBC Bank's 2011 Annual Report, section 'Report of the Board of Directors' and KBC Group's Extended Quarterly Report 1Q2012, as incorporated by reference herein (see "Documents incorporated by reference" above).

As set out in the strategic plan, the KBC Bank Group is refocusing on its core bancassurance activities in Belgium and selected countries in Central and Eastern Europe. A number of subsidiaries and activities are planned to be scaled back or sold.

For the Belgium Business Unit, the KBC Bank Group's core strategy will continue to be based on relationship bancassurance via a dense network. The strategic plan includes the planned divestment of the complementary sales channel of Centea (sold on 1 July 2011) and Fidea (belonging to KBC Insurance, sold on 30 March 2012). In 2010, a program was initiated to further enhance the KBC Bank Group's commercial network in Belgium.

## 8 Central & Eastern Europe Business Unit

This Business Unit comprises all the Group's banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe.

The main KBC Bank Group entities that belonged to this business unit in 2011 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), and K&H Bank (Hungary). Absolut Bank (Russia), Nova Ljubljanska banka (NLB, Slovenia; minority share) and Kredyt Bank (Poland) also belong to this Business Unit, but as they are earmarked for divestment, their results were shifted to the "Group Centre" in the financial reporting as of 2010.

### Network

Over the past few years, KBC Bank Group has built up an extensive network in a number of countries in Central and Eastern Europe. As of 31st December, 2011, this network consisted of 806 branches operated by its subsidiaries in the home markets, being ČSOB in the Czech Republic, ČSOB in Slovakia, K&H Bank in Hungary, and CIBANK in Bulgaria. Bank branches in the non-home markets of Poland, Russia and Serbia totalled roughly 500. In its four home countries, KBC Bank Group caters to an estimated 4.7 million customers. This customer base, along with the Group's insurance customers in the region (via KBC Insurance subsidiaries), make the Group one of the larger financial groups in the Central & Eastern European region.

| <b>Bank network in Central and Eastern Europe<br/>(as at 31st December, 2011)<sup>1</sup></b> | <b>Estimated<br/>market<br/>share</b> | <b>Bank<br/>Branches</b> |
|---|---------------------------------------|--------------------------|
| Home countries .....  |                                       |                          |
| Czech Republic .....  | ČSOB<br>20 %                          | 314                      |

| <b>Bank network in Central and Eastern Europe<br/>(as at 31st December, 2011)<sup>1</sup></b> |              | <b>Estimated<br/>market<br/>share</b> | <b>Bank<br/>Branches</b> |
|---|--------------|---------------------------------------|--------------------------|
| Slovakia.....   | ČSOB         | 10 %                                  | 129                      |
| Hungary.....  | K&H Bank     | 9 %                                   | 246                      |
| Bulgaria.....   | CIBANK       | 3 %                                   | 117                      |
| Other countries (to be divested in future)  |              |                                       |                          |
| Poland.....   | Kredyt Bank  | 3-4%                                  |                          |
| Serbia <sup>2</sup> .....   | KBC Banka2   | >1 %                                  |                          |
| Russia.....   | Absolut Bank | <1 %                                  |                          |

1. Figures for market share relate to customer deposits and credits (average of the two) and are KBC Bank's own estimates. Excluding the minority stake in Nova Ljubljanska banka in Slovenia.
2. KBC Banka is a subsidiary of KBC Insurance, a sister company of KBC Bank.

### **Bancassurance**

The Group's bancassurance concept (see under Belgium Business Unit) has over the past few years been exported to its Central and Eastern European entities. In order to be able to do so, the Group has built up a second home market in Central and Eastern Europe in insurance (via KBC Insurance). The Group now has an insurance business in every Central and Eastern European home country. In the Czech Republic, the Group's insurer is ČSOB Pojist'ovňa, in Slovakia, ČSOB Poist'ovňa, in Hungary, K&H Insurance and in Bulgaria, DZI Insurance. In Poland, the group's insurer is WARTA, for which a sale agreement was already signed (not yet closed). Contrary to the situation in Belgium, the Group's insurance companies in Central and Eastern Europe operate not only via tied agents (and bank branches) but also via other distribution channels, such as insurance brokers and multi-agents.

### **Market share**

As of 31st December, 2011, the KBC Bank Group's estimated market share (the average of the share of the lending market and the deposit market) came to 20 per cent. in the Czech Republic, 10 per cent. in Slovakia, 9 per cent. in Hungary, and 3 per cent. in Bulgaria (rounded figures). The market shares in both Serbia and Russia are limited; in Poland, the market share of Kredyt Bank is roughly 3 to 4 per cent. 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 Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 31 per cent. in the Czech Republic, 10 per cent. in Slovakia, and 20 per cent. in Hungary).

### **Electronic channels**

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

## **Expansion**

No significant acquisitions are planned in the foreseeable future.

In 2011, KBC Bank and the International Finance Corporation (IFC) – the private sector arm of the World Bank Group – signed and closed an agreement through which KBC Bank acquired a large part of IFC's 5% stake in Absolut Bank. The sale is the result of the IFC exercising the put option it had agreed with KBC Bank in 2007. As a result, KBC Bank now holds a 99% stake in Absolut Bank.

## **Main events in 2011 and early 2012 (up to 10 May 2012)**

Reference is made to KBC Bank's 2011 Annual Report, section 'Report of the Board of Directors' and KBC Group's Extended Quarterly Report 1Q2012, as incorporated by reference herein (see "*Documents incorporated by reference*" above).

For the Central and Eastern Europe Business Unit, the core strategy is based on a refined bancassurance model in selected countries (Czech and Slovak Republics, Hungary and Bulgaria). Absolut Bank (Russia), KBC Banka (Serbia, subsidiary of KBC Insurance) and (the minority share in) Nova Ljubljanska banka (Slovenia) are considered to be non-core in the strategy and are planned to be divested in future. Following a change to the strategic plan mid 2011\*, Kredyt Bank is now also to be divested. In February 2012, KBC announced that it had concluded an agreement with Banco Santander S.A. with regard to the merger of the respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank (subsidiary of KBC Bank), ultimately with the aim to sell KBC's shareholding in the merged bank (deal not yet closed).

\* On 13 July 2011, it was announced that KBC Group had formally applied to the European Commission to amend its 2009 strategic plan. KBC Group and the Belgian authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake in CSOB Bank (Czech Republic) and in K&H Bank (Hungary), as well as the sale and lease back of KBC's head office in Belgium, by the divestment of KBC's Polish subsidiaries, Kredyt Bank (subsidiary of KBC Bank) and Warta (subsidiary of KBC Insurance), and their subsidiaries, and the sale or unwinding of selected ABS and CDO assets. The application was approved by the European Commission on 27 July 2011.

KBC Bank's 2011 Annual Report, section 'Report of the Board of Directors' also provides details on the loan portfolio of K&H Bank in Hungary, a feature of which is the relatively large share of retail loans in foreign currency. New legislation in Hungary regarding this issue caused K&H Bank to book significant additional loan loss provisions in 2011.

## **9 Merchant Banking Business Unit**

The Merchant Banking Business Unit comprises the Group's banking services provided to larger SMEs and corporate customers, as well as all market activities (apart from the merchant banking activities performed by the Group companies in Central and Eastern Europe, which are recorded under the Central and Eastern Europe Business Unit).

The main KBC Bank Group entities belonging to this Business Unit in 2011 were KBC Commercial Finance (Belgium), the merchant banking activities of KBC Bank NV, KBC Bank Ireland (Ireland), KBC Credit Investments (Belgium), KBC Lease (corporate), KBC Internationale Financieringsmaatschappij (Netherlands), and KBC Securities (various countries).

Antwerp Diamond Bank (various countries), KBC Bank Deutschland (Germany), KBC Financial Products (various countries – various activities already divested), and KBC Peel Hunt (UK - already sold) also belong to the Merchant Banking Business Unit, but as they are earmarked for divestment, their results were shifted to the "Group Centre" in the financial reporting as of 2010.

## **Network**

The 26 corporate branches of KBC Bank and CBC Banque (succurales) in Belgium provide products and services to corporates in Belgium (mainly large SMEs). Outside Belgium (and Central & Eastern Europe), KBC Bank Group concentrates on merchant banking through a network of KBC Bank representative offices, branches and subsidiaries. The KBC Bank representative offices and branches are located mainly in Western Europe, Southeast Asia and the United States. As set out in the strategic plan, the main focus of these representative offices and branches is to serve customers that already do business with KBC Bank Group's Belgian or Central & Eastern European network. As a result many of the other (niche) activities are considered non-core and are being built-down, stopped or sold, and the credit portfolio is being scaled down.

Corporate banking activities are also performed by a number of subsidiaries, including KBC Bank Deutschland and KBC Bank Ireland (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's annual report provides details on the portfolio of this subsidiary). KBC Bank Group also provides specialised corporate services via subsidiaries that specialise in the area of real estate services, leasing and factoring, finance for the diamond trade etc. In the strategic plan, a number of these activities are considered non-core and are marked for divestment.

Besides corporate banking, KBC Bank Group is also involved in a number of market activities, including dealing room activities (money and debt market activities via a number of dealing rooms in Europe, the United States and South East Asia), brokerage and corporate finance (mainly via KBC Securities), other specialised market activities (via KBC Financial Products; many activities have already been sold), etc. In the new strategy, a number of these activities are considered non-core and are being built down, stopped or sold. For some of the planned divestments, a sale agreement has already been signed.

## **Market share**

As of 31st December, 2011, KBC Bank Group accounted for (based on its own rough estimates) approximately a quarter of the Belgian commercial credit market.

## **Electronic channels**

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

## **Main events in 2011 and early 2012 (up to 10 May 2012)**

Reference is made to KBC Bank's 2011 Annual Report, section 'Report of the Board of Directors' and KBC Group's Extended Quarterly Report 1Q2012, as incorporated by reference herein (see "*Documents incorporated by reference*" above).

In the strategic plan, the KBC Bank Group will refocus on its core bancassurance activities in Belgium and selected countries in Central and Eastern Europe. A number of subsidiaries and activities, many of which related to investment banking activities, are planned to be built down or sold. For the Merchant Banking Business Unit, this entails a major reduction of scope and risk profile.

As to KBC Bank Group's presence in Ireland (via KBC Bank Ireland), note that details on the Irish loan book (including related impairments) are provided in the annual report. In 2011, KBC Bank set aside approximately €500 million in additional loan loss provisions for this Irish loan book and as at end 2011, approximately 17.7 per cent. of the Irish loan book was classified as non-performing. In 1Q2012, €200 million in additional loan loss provisions were booked and 20.5 per cent. of the portfolio was non-performing.

During 2010 and 2011, a number of merchant bank activities and subsidiaries were sold, including KBC Peel Hunt (management buy-out), KBC Business Capital, KBC Securities Baltic Investment Company (management buy-out), a number of activities of KBC Financial Products and the activities of KBC Securities in Serbia and Romania.

## **10 Group Centre**

As already explained, in KBC Group's financial reporting, the results of the major companies that are earmarked for divestment were shifted to the Group Centre. These companies were mentioned in earlier paragraphs.

## **11 Competition**

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

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

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

In Belgium, KBC Bank Group is perceived as one of the top three financial institutions. For certain products or activities (for example in the area of investment funds), KBC Bank Group has, based on its own estimates, a leading position. The main competitors in Belgium are BNP Paribas Fortis, Belfius and ING, although for certain products, services or markets, other financial institutions may also be important competitors.

In the Central & Eastern Europe region, the KBC Bank Group is, based on its own estimates, one of the leading financial groups, occupying significant positions in banking. In this respect, the KBC Bank Group 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 the world, KBC Bank Group's presence mainly consists of a limited number of branches and subsidiaries. In this case, KBC Bank Group faces competition both from local companies and from international financial groups.

## **12 Risk management**

Risk management in the 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 is available in the 2011 Annual Report of KBC Bank and KBC Group and to a larger extent in the 2011 Risk Report of KBC Group. Below, only a selection of this information is provided - for a full overview, please refer to the annual reports and the Risk Report of KBC Group.

## **Risk governance**

Mainly active in banking, insurance and asset management, the Group is exposed to a number of typical risks such as - but certainly not exclusively - credit risk, market risks (e.g. movements in interest rates, capital markets risk, currency risk, liquidity risk), insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or generate additional charges beyond anticipated levels.

Below follows a description of credit risks, market risk (trading & non-trading activities) liquidity risks and operational risks. A selection of figures on credit risk, ALM and market risk in trading activities are provided further on.

- Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non performance by a contracting party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk which is the risk for adverse changes in credit ratings.
- Market risk in non-trading activities (also known as Asset/Liability Management)) is the process of managing the Group's structural exposure to market risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk.
- Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses. The principal objective of KBC Bank Group's liquidity management is to be able to fund such needs and to enable the core business activities of KBC Bank Group to continue to generate revenue, even under adverse circumstances.
- Market risk is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in market prices, i.e. interest rates, exchange rates and equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book are all included in ALM exposure.
- Operational risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

The Group's risk governance framework defines the responsibilities and tasks required to manage value creation and the associated risks. During 2010, The Group's risk management framework underwent significant changes with regard to governance and structure. The goal of these changes was to further improve the group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

## **Credit risk**

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

Loan & investment portfolio:

The loan & investment portfolio is mainly the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds.

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio. This portfolio is the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. It excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credits, etc.) and government bonds.

### Loan portfolio, KBC Bank Group\*

|  | <b>31st<br/>December,<br/>2009</b> | <b>31st<br/>December,<br/>2010</b> | <b>31st<br/>December,<br/>2011</b> |
|--|------------------------------------|------------------------------------|------------------------------------|
| <b>Total loan portfolio (in billions of EUR)</b>   |                                    |                                    |                                    |
| Amount granted .....   | 198                                | 192                                | 186                                |
| Amount outstanding.....  | 163                                | 161                                | 156                                |
| <b>Loan portfolio breakdown by business unit (as a per cent.,<br/>of the portfolio of credit granted)</b>          |                                    |                                    |                                    |
| Belgium .....  | 29 per cent.                       | 31 per cent.                       | 34 per cent.                       |
| CEE .....  | 22 per cent.                       | 18 per cent.                       | 19 per cent.                       |
| Merchant banking.....  | 40 per cent.                       | 36 per cent.                       | 37 per cent.                       |
| Group Centre (includes planned divestments) .....  | 9 per cent.                        | 15 per cent.                       | 10 per cent.                       |
| Total.....   | 100 per cent.                      | 100 per cent.                      | 100 per cent.                      |
| <b>Loan portfolio breakdown by sector (selected sectors as a<br/>per cent. of the portfolio of credit granted)</b> |                                    |                                    |                                    |
| Real estate.....   | 7 per cent.                        | 7 per cent.                        | 7 per cent.                        |
| Electricity .....  | 3 per cent.                        | 2 per cent.                        | 2.3 per cent.                      |
| Aviation .....   | 0.3 per cent.                      | 0.3 per cent.                      | 0.3 per cent.                      |
| Automobile industry .....  | 2 per cent.                        | 2 per cent.                        | 2.1 per cent.                      |
| <b>Impaired loans (in millions of EUR or per cent.)</b>  |                                    |                                    |                                    |
| Amount outstanding.....  | 8,732                              | 10,928                             | 11,205                             |
| Specific loan impairments .....  | 3,696                              | 4,656                              | 4,850                              |

|  | <b>31st<br/>December,<br/>2009</b> | <b>31st<br/>December,<br/>2010</b> | <b>31st<br/>December,<br/>2011</b> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Portfolio-based loan impairments .....   | 323                                | 351                                | 341                                |
| Credit cost ratio, per business unit .....   |                                    |                                    |                                    |
| Belgium .....  | 0.15 per cent.                     | 0.15 per cent.                     | 0.10 per cent.                     |
| CEE .....  | 1.70 per cent.                     | 1.16 per cent.                     | 1.59 per cent.                     |
| Merchant Banking .....   | 1.19 per cent.                     | 1.38 per cent.                     | 1.36 per cent.                     |
| Group Centre (includes planned divestments) .....  | 2.52 per cent.                     | 1.17 per cent.                     | 0.36 per cent.                     |
| Total.....   | 1.12 per cent.                     | 0.91 per cent.                     | 0.83 per cent.                     |
| <b>Non-performing (NP) loans (in millions of EUR or per cent.)</b>                                   |                                    |                                    |                                    |
| Amount outstanding.....  | 5,427                              | 6,531                              | 7,553                              |
| Specific loan impairments for NP loans.....  | 2,657                              | 3,273                              | 3,864                              |
| Non-performing ratio, per business unit .....  |                                    |                                    |                                    |
| Belgium .....  | 1.5 per cent.                      | 1.5 per cent.                      | 1.5 per cent.                      |
| CEE .....  | 4.1 per cent.                      | 5.3 per cent.                      | 5.6 per cent.                      |
| Merchant Banking .....   | 3.9 per cent.                      | 5.2 per cent.                      | 7.8 per cent.                      |
| Group Centre (includes planned divestments) .....  | 5.1 per cent.                      | 5.8 per cent.                      | 5.5 per cent.                      |
| Total.....   | 3.3 per cent.                      | 4.1 per cent.                      | 4.9 per cent.                      |
| Cover ratio .....  |                                    |                                    |                                    |
| Specific loan impairments for NP loans/Outstanding NP loans.   | 49 per cent.                       | 50 per cent.                       | 51 per cent.                       |
| Idem, excluding mortgage loans .....   | 59 per cent.                       | 60 per cent.                       | 63 per cent.                       |
| Specific and portfolio-based loan impairments for performing and NP loans/outstanding NP loans ..... | 74 per cent.                       | 77 per cent.                       | 69 per cent.                       |
| Idem, excluding mortgage loans .....   | 89 per cent.                       | 96 per cent.                       | 89 per cent.                       |

\* Also at 31st March, 2011 including Centea

Impaired loans: on KBC Bank's internal Probability of Default ("PD") scale, impaired loans coincide with the worst loan classes, i.e. loans to clients with a PD of 10, 11 and 12. In respect of these impaired loans, specific loan impairments are recorded under the net present value of the recoverable amount. In addition, a portfolio-based impairment for credit in PD classes 1 to 9 is recognised (based on a formula). Non-performing loans are impaired loans for obligors that are more than ninety days past due (in arrears or overdrawn) and coincide with loans to clients with PD classes 11 and 12. The Non-performing ratio is defined as (amount outstanding of non-performing loans)/(Total outstanding loan portfolio). The credit cost ratio is defined as (net changes in specific and portfolio-based impairment for credit risks)/(average outstanding loan portfolio).

Other credit risks:

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk, such as short-term commercial exposure (this activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries), the counterparty risk of inter-professional transactions (refers to placements and the pre-settlement risk of derivatives), trading book securities - issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government securities in the investment portfolio of banking entities. Information on these risks can be found in the annual report.

Structured credit exposure:

In relation to so-called structured credit products, more information is available in the annual report of KBC Group and KBC Bank and in a dedicated Risk Report available on [www.kbc.com](http://www.kbc.com).

### Structured credit exposure (CDOs and other ABS), 31st March, 2012

In the past, the Group acted as an *originator* of structured credit transactions and also *invested* in such structured credit products itself.

The Group (via its subsidiary KBC Financial Products) acted as an originator when structuring CDO deals (based on third-party assets with no sponsoring role for the Group) for itself or for third party investors. For several transactions, protection was bought from credit insurers, mainly MBIA, a US monoline insurer ('hedged CDO-linked exposure' in the table).

The Group invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by the Group itself ('unhedged CDO exposure' in the table) and in other ABS ('other ABS' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the re-investment of the insurance reserves and bank deposits it held in surplus of its loans.

#### In billions of EUR – 31st March, 2012

|   |      |
|---|------|
| The Group's investments in structured credit products (CDOs and other ABS)* ..... |      |
| Total nominal amount .....  | 18.2 |
| <i>o/w hedged CDO exposure</i> .....  | 10.1 |
| <i>o/w unhedged CDO exposure</i> .....  | 5.5  |
| <i>o/w other ABS exposure</i> .....   | 2.6  |
| Cumulative value markdowns* .....   | -4.8 |
| <i>o/w value markdowns</i> .....  | -4.1 |
| <i>for unhedged CDO exposure</i> .....  | -3.8 |
| <i>for other ABS exposure</i> .....   | -0.3 |
| <i>o/w Credit Value Adjustment (CVA) on MBIA cover</i> .....                      | -0.8 |

\* Note that, value adjustments to KBC's CDOs are accounted for via profit and loss (instead of directly via shareholders' equity), since the group's CDOs are mostly of a synthetic nature (meaning that the underlying assets are derivative products such as credit default swaps on corporate names). Their synthetic nature is also the reason why KBC's CDOs are not eligible for accounting reclassification under IFRS in order to neutralise their impact.

In 2011, there was a total notional reduction of 6.8 billion euros, due mainly to the:

- (i) Chiswell CDO reaching maturity (-1.4 billion euros of hedged CDO exposure and -0.2 billion euros of unhedged exposure).
- (ii) Sale of the Avebury CDO (-0.5 billion euros of unhedged CDO exposure).
- (iii) Lancaster CDO being unwound (-0.4 billion euros of hedged CDO exposure covered by Channel, and -0.1 billion euros of unhedged exposure).
- (iv) Early termination of the Fulham Road CDO (-1.7 billion euros of hedged exposure and -0.3 billion euros of unhedged exposure).
- (v) Sale of KBC's exposure to the Wadsworth CDO (-0.5 billion euros of hedged exposure).
- (vi) Sale of the underlying ABS assets for the expired Aldersgate and Chiswell CDOs (-0.3 billion euros).
- (vii) Sale of impaired assets in the former Atomium portfolio, along with some minor sales, amortisations and prepayments (-1.4 billion euros of other ABS and CDO exposure).

Over the first quarter of 2012, there was a total notional reduction of 2.2 billion euros. The main component of this reduction was the de-risking of two CDOs (Dorset and Newcourt), resulting in a decrease of the outstanding CDO notional with 1.7 billion euros, and the approximately 500 million euros of sales and amortizations of ABSs held by KBC Group.

Since the inception, the outstanding unhedged CDO positions held by KBC experienced net effective losses caused by claimed credit events until 10 April 2012 in the lower tranches of the CDO structure for a total amount of -2.2 billion euros. Of these, -1.9 billion euro's worth of events have been settled. These have had no further impact on P/L because complete value markdowns for these CDO tranches were already absorbed in P/L in the past.

#### **Asset-liability management (market risks in non-trading activities)**

The table below shows the extent to which the value of the economic portfolio would change (basis-point-value or BPV) if interest rates were to fall by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). More details are available in the 2010 annual report of KBC Bank.

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

|                                |     |
|--------------------------------|-----|
| Average, 1Q 2010.....          | -63 |
| Average, 2Q 2010.....          | -68 |
| Average, 3Q 2010.....          | -69 |
| Average, 4Q 2010.....          | -62 |
| <i>End of period</i> .....     | -55 |
| <i>Maximum in period</i> ..... | -69 |
| <i>Minimum in period</i> ..... | -55 |
| Average, 1Q 2011 .....         | -61 |
| Average, 2Q 2011 .....         | -62 |
| Average, 3Q 2011 .....         | -58 |
| Average, 4Q 2011 .....         | -45 |
| <i>End of period</i> .....     | -40 |
| <i>Maximum in period</i> ..... | -65 |
| <i>Minimum in period</i> ..... | -40 |
| Average, 1Q 2012.....          | -56 |
| <i>End of period</i> .....     | -54 |
| <i>Maximum in period</i> ..... | -61 |
| <i>Minimum in period</i> ..... | -53 |

## Market risk management

As already stated before, KBC Bank Group has a number of money and debt capital market dealing rooms in Western and Central and Eastern Europe, the United States and Asia, though the dealing room in Brussels accounts for the majority of the limits and risks.

KBC continued to divest trading activities in its subsidiaries by, inter alia, selling KBL EPB, continuing to wind down the remaining business lines at KBC Financial Products, and selling or unwinding selected ABS and CDO assets.

The table below shows the Historical Value-at-Risk (HVAR; 99 per cent. confidence interval, 1-day holding period, historical simulation) for KBC Bank Group's dealing rooms on the money and capital markets, and for KBC Financial Products. More details are available in the 2011 annual report of KBC Bank.

## Market risk HVAR (1-day holding period, in millions of EUR)

|                       | <b>KBC Bank<br/>Group<sup>1,2</sup></b> | <b>KBC<br/>Financial<br/>Products<sup>3</sup></b> |
|-----------------------|---|---|
| Average, 1Q 2010..... | 6                                       | 9   |
| Average, 2Q 2010..... | 8                                       | 9   |

|   | <b>KBC Bank<br/>Group<sup>1,2</sup></b> | <b>KBC<br/>Financial<br/>Products<sup>3</sup></b> |
|---|---|---|
| Average, 3Q 2010.....   | 6                                       | 8   |
| Average, 4Q 2010.....   | 5                                       | 8   |
| <i>End of period</i> .....  | 4                                       | 7   |
| <i>Maximum in period</i> .....  | 15                                      | 13  |
| <i>Minimum in period</i> .....  | 4                                       | 6   |
| Average, 1Q 2011.....   | 4                                       | 6   |
| Average, 2Q 2011.....   | 4                                       | 5   |
| Average, 3Q 2011.....   | 4                                       | 8   |
| Average, 4Q 2011.....   | 8                                       | 3   |
| <i>End of period</i> .....  | 9                                       | 6   |
| <i>Maximum in period</i> .....  | 10                                      | 11  |
| <i>Minimum in period</i> .....  | 3                                       | 1   |
| Average, 1Q 2012.....   | 10                                      | 5   |
| <i>End of period</i> .....  | 10                                      | 1   |
| Maximum in period .....   | 11                                      | 8   |
| Minimum in period .....   | 9                                       | 1   |
| 1. Excluding 'specific interest rate risk' (measured using other techniques) and swap basis risk. |   |   |
| 2. Integrated HVAR, including KBL EPB in 2009, excluding KBL EPB from 2010 on.                    |   |   |
| 3. Excluding the Avebury CDO and Fund Derivatives business line.                                  |   |   |

#### **Market risk SVAR (10-day holding period, in millions of EUR)<sup>1</sup>**

|                                     | <b>KBC<br/>Bank<br/>Group</b> | <b>KBC<br/>Financial<br/>Products</b> |
|-------------------------------------|-------------------------------|---------------------------------------|
| Average, 1Q 2011.....               | -                             |                                       |
| Average, 2Q 2011.....               | -                             |                                       |
| Average, 3Q 2011.....               | -                             |                                       |
| Average, 4Q 2011.....               | 46                            | 1.                                    |
| <i>End of period</i> .....          | 36                            | 1'                                    |
| <i>Maximum in period</i> .....      | 60                            | 1'                                    |
| <i>Minimum in period</i> .....      | 24                            | 1                                     |
| Average, 1Q 2012 <sup>2</sup> ..... | 44                            | 1.                                    |
| <i>End of period</i> .....          | 42                            | :                                     |
| <i>Maximum in period</i> .....      | 48                            | 2'                                    |

|                                |    |   |
|--------------------------------|----|---|
| <i>Minimum in period</i> ..... | 40 | : |
|--------------------------------|----|---|

1. SVAR (Stressed VAR) calculated only as of the fourth quarter of 2011. Unaudited.
2. SVAR figures for 1Q are based on a 60 day window.

### 13 Staff

In 2011, the KBC Bank Group had, on average on a consolidated basis, about 38,000 employees (full-time or equivalent), the majority of whom were located in Belgium (especially KBC Bank) and Central and Eastern Europe. In addition to talks at works council meetings and at meetings with union representatives and with other consultative bodies, the KBC Bank Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

### 14 Banking supervision and regulation

#### Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed and comprehensive regulation in Belgium, and is supervised by the NBB, the Belgian central bank, acting as the supervisory authority for prudential supervision of financial institutions. Since the implementation on 1st April, 2011 of the “Twin Peaks Act”, the powers relating to prudential supervision have been transferred from the Banking, Finance and Insurance Commission (“CBFA”) to the NBB.

The remaining supervisory powers previously exercised by the CBFA are now exercised by the Financial Services and Markets Authority (“FSMA”). This autonomous public agency is in charge of supervision with regard to conduct of business rules for financial institutions and market supervision.

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 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 banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22nd March, 1993 and its subsequent modifications (the “Banking Act”). The Banking Act, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14th June, 2006 relating to the taking up and pursuit of the business of credit institutions (the “Capital Requirements Directive”) and by EC Directive 2006/49/EC of 14th June, 2006 on the capital adequacy of investment firms and credit institutions (the “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 NBB. 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 NBB before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfil numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 10 per cent. 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 NBB therefore requires the disclosure of the identity and participation of any shareholder with a 10 per cent. or greater capital or voting interest. If the NBB considers that the participation of a shareholder in a credit institution jeopardizes 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 NBB is required each time a person intends to acquire shares in a credit institution, resulting in the direct or indirect ownership of a qualified holding (i.e. 10 per cent.), or 20 per cent., 30 per cent. or 50 per cent. of the capital or voting rights, or when the credit institution would become his subsidiary. 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 NBB thereof. The Belgian credit institution itself is obliged to notify the NBB of any such transfer when it becomes aware thereof. Moreover, every shareholder acquiring, decreasing or increasing its holding (directly or indirectly, alone, together with affiliated persons or in concert with third parties) to 5 per cent. or more of voting rights or capital without reaching the qualifying holding threshold of 10 per cent., must notify the NBB thereof within 10 working days. The Banking Act requires credit institutions to provide detailed periodic financial information to the NBB and, under certain circumstances, the FSMA. The NBB also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The NBB sets the minimum capital adequacy ratios applicable to credit institutions. The NBB may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions. It also sets the standards regarding solvability, liquidity, risk concentration and other limitations applicable to credit institutions. Pursuant to the Banking Act, the NBB 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. Further, the NBB supervises, among other things, the management structure, the administrative organization, the accounting and the internal control mechanisms of a credit institution. The NBB may supplement these communications and controls by on-site inspections. The NBB also exercises its comprehensive supervision of credit institutions through Statutory Auditors who cooperate with the NBB in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the NBB. Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls. If the NBB 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, 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 NBB has the power to appoint a special commissioner, to impose additional requirements regarding solvency, liquidity, risk concentration and other limitations, to suspend or prohibit all or part of the credit institution's activities (including a partial or complete suspension of the execution of current contracts), to order the disposal of all or part of the credit institution's shareholdings, to impose a replacement of the directors, and finally, to revoke the license of the credit institution. In urgent situations the NBB may even impose such measures immediately without regard to the deadline mentioned above. Furthermore, if the circumstances as described in the previous paragraph are likely to impact the stability of the Belgian or international financial system, every act of disposal regarding the credit institution can be taken by Royal Decree, including the sale, transfer or contribution with regard to any or all assets, liabilities or parts, or the shares of the credit institution. Such measures will not alter or end any contracts between the credit institution and a third party. Similar measures can be taken if the credit institution violates the conduct of business rules and thereby impairs the Belgian or international financial system.

## **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 a circular, the NBB recommends the implementation of this distinction (the "Circular"). The Circular also contains other recommendations to assure the autonomy of the banking function and the proper governance of the credit institution.

As required by the CBFA (now the NBB), KBC Bank has drafted a governance memorandum (the "Governance Memorandum"), which sums up the main characteristics of its policy structure. The policy of a credit institution must meet the principles set out in the Circular. The Governance Memorandum has already been approved by the Board of Directors of KBC Bank and has been submitted for approval to the NBB.

Pursuant to the Banking Act, the members of the Executive Committee need to have the required professional reliability and appropriate experience and the other managers of a credit institution need to have the required expertise and appropriate experience.

## **Solvency supervision**

Capital requirements and capital adequacy ratios are provided for in the Belgian Prudential Supervisor's Regulation on Own Funds of 17th October, 2006 as approved by Ministerial Decree of 27th December, 2006 (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 per cent. 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 per cent. of the 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 per cent. or more) may not exceed: (i) 15 per cent. of the shareholders' equity of the credit institution on a per investment basis, or (ii) 45 per cent. of the shareholders' equity of the credit institution in the aggregate.

## **Money laundering**

Belgium has implemented Directive 2005/60/EC of the European Parliament and of the Council of 26th October, 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing by adjusting an Act of 11th January, 1993 (as amended from time to time). This legislation contains 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 with the appointment of a compliance officer, and employee training requirements. 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. This 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 Belgian Prudential Supervisor has issued guidelines for 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 and a maximum of €100,000 (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 Bank Group, which covers among other things solvency 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)” (a “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 FSMA.

The UCITS-management company regime in Belgium is governed by the “Law on certain forms of collective management of investment portfolios” of 20th July, 2004 and its subsequent modifications (“Act of 20th July, 2004”). The Act of 20th July, 2004 implements European Directive 2001/107/EC of 21st January, 2002 relating to UCITS, as amended from time to time. This Act regulates management companies and sets forth the conditions under which UCITS-management companies may operate in Belgium; furthermore, it defines the regulatory and supervisory powers of the FSMA.

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

- certain minimum paid-up capital requirements and rules relating to changes affecting capital structure;
- obligation for management companies to carry out their activities in the interests of their clients or of the UCITS they manage (e.g. creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the FSMA;
- supervision by the FSMA; and

subjection to the control of Statutory Auditors.

## 15 Capital Transactions and Guarantee Agreements with the Government in 2008 and 2009

In order to maintain its capital base at a sufficiently high level, KBC Group issued €3.5 billion worth of capital securities to each of the Belgian State and the Flemish Region. In addition it was agreed with the Belgian State that it provide a guarantee relating to (originally) €20 billion of CDO and MBIA-related risk.

### **The €7 billion core capital securities subscribed by the Belgian State and the Flemish Region of Belgium**

Since the end of 2008, KBC Group has issued €7 billion of perpetual, non-transferable core-capital instruments with no voting rights, which rank equally with ordinary shares upon liquidation, to the Belgian State (the *Federale Participatie- en Investeringsmaatschappij*) and the Flemish Region of Belgium (€3.5 billion each). The transaction with the Belgian State was concluded in December 2008 and the transaction with the Flemish Region of Belgium was closed in July 2009. The KBC Group has used the proceeds of these transactions to strengthen the core capital of its banking activities by in total €5.5 billion via ordinary capital increases in KBC Bank and to increase the solvency margin of its insurance activities by €1.5 billion (via ordinary capital increases in KBC Insurance NV). The other features of these transactions are described in the 2011 Annual Report of KBC Group.

On 2 January 2012, KBC Group repaid an initial 500 million euros to the Belgian State, along with a 15 per cent penalty (see the ‘Exchange option’ feature in the 2011 Annual Report).

### **The Guarantee Agreement relating to (originally) €20 billion of CDO and MBIA-related risk**

In May 2009, KBC reached an agreement with the Belgian State regarding a guarantee arrangement for a substantial part of its structured credit exposure. In brief and simplified, the guarantee relates to a portfolio for a notional amount of (originally) €20 billion, comprising a notional amount of €5.5 billion of super senior and mezzanine CDO investments and €14.4 billion of counterparty risk on MBIA (the US monoline insurer). Against payment of a fee, a guarantee from the State was bought covering 90 per cent. of the default risk beyond a set first loss. The original figures have meanwhile changed substantially (due to investments reaching maturity and various restructurings of the CDO-book). This is reflected in the current structure of the guarantee as set out below (‘currently’ meaning as at end March 2012). The mentioned figures refer to the aggregate notional amount at risk of all CDOs to which the guarantee relates:

- First Tranche of originally €3.2 billion (currently €1.7 billion): credit losses to be borne by the Group.
- Second Tranche of originally €2 billion (currently €1.5 billion): credit losses to be borne by the Group. The Group can ask the Belgian State to subscribe to new KBC Group shares at market value, for an amount equalling 90 per cent. of the loss in this tranche (10 per cent. of the risk to be retained by KBC Group).
- Third Tranche of originally €14.8 billion (currently €8.9 billion): credit losses of 90 per cent. to be compensated for by the State in cash (10 per cent. of the loss to be retained by KBC Group).

As a result, the potential negative impact from the MBIA- and CDO-exposure is significantly reduced.

## 16 Strategic plan of KBC Group

The Group has been working on a strategic analysis of its group-wide activities and of the economic and financial environment the Group currently operates in. This effort has resulted in a strategic plan, which has been tested under different macroeconomic scenarios. The plan analyses the Group’s business and its proposed future strategy, and also served as a basis for the European Commission to assess the Group’s capacity to redeem the capital securities subscribed by the Belgian State and the Flemish Region of Belgium within a reasonable timeframe. This is common practice for European financial institutions that have taken

part in economic stimulus plans launched by the EU Member States. The plan was cleared by European regulatory authorities on 18th November, 2009.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS on leases), and the difficulty involved in floating K&H in the current circumstances, some measures presented in the initial plan have become less effective or less feasible in achieving the intended aim of repaying the state aid in a timely manner.

The Group therefore proposed to replace the initial public offerings of a minority stake in CSOB Bank (Czech Republic) and K&H Bank (Hungary) and the sale and lease back of the headquarter offices in Belgium foreseen in the initial plan, by the divestment of Kredyt Bank and Warta in Poland and the sale or unwind of selected ABS and CDO assets.

This proposal was accepted by the EU commission on 27th July 2011.

In its new strategy, the Group will refocus on its core bancassurance activities in Belgium and 4 selected countries in Central and Eastern Europe (Czech and Slovak Republics, Hungary and Bulgaria). A number of subsidiaries and activities, many of which related to investment banking activities, are already or will be built down or sold by year end 2013. International corporate lending outside the home markets will be downscaled. Note that the plan provides flexibility to cope with potential setbacks, such as worse-than-anticipated macroeconomic growth figures.

For the Belgium Business Unit, the core strategy will continue to be based on relationship bancassurance via a dense network. It was decided to divest the complementary sales channels of Centea and Fidea (the latter belonging to KBC Insurance) to generate repayment capacity for the capital securities issued to the Belgian and Flemish governments. In March 2011, an agreement to sell Centea was signed with Landbouwkrediet/Crédit Agricole (Belgium). Closing took place in July 2011. In October 2011, an agreement to sell Fidea was signed with JCF III Europe sarl (Luxembourg). Closing took place in March 2012.

For the Central and Eastern Europe Business Unit, the core strategy will be based on a refined bancassurance model in selected countries where the Group has a strong foothold (Czech and Slovak Republics, Hungary and Bulgaria). Kredyt Bank and Warta (including most of their Polish subsidiaries), Absolut Bank (Russia), KBC Banca (Serbia, subsidiary of KBC Insurance), Nova Ljubljanska Banka (Slovenia, minority stake) and Zagieli (Polish consumer finance) are considered to be non-core in the new strategy and are in the process of being divested. In January 2012, an agreement to sell Warta was signed with Talanx (Germany); the process to obtain regulatory approval is underway. In February 2012, KBC and Banco Santander announced their intention to merge their respective Polish banking subsidiaries, Kredyt Bank and BZ WBK ); the process to obtain regulatory approval is underway. Furthermore, in April 2012 an agreement to sell Zagieli was signed with Santander Consumer Finance; the process to obtain regulatory approval is underway.

For the Merchant Banking Business Unit, this strategy entails a major reduction of scope and risk profile as the objective is to exit in an orderly manner from the bulk of the lending and investment banking activities that do not have clear synergies with the Belgium and Central and Eastern European markets. Some branches are/will be closed, while, inter alia, Antwerp Diamond Bank, KBC Bank Deutschland, KBC Finance Ireland, KBC Financial Products and KBC Peel Hunt are earmarked for divestment (some of which were already realised) or wind-down, and the international credit portfolio outside the home markets is being scaled down. The remaining merchant banking activities have a strategic fit with the Group's home market activities. The Group's presence in Ireland via KBC Bank Ireland remains under review for the time being.

The entire former European Private Banking Business Unit (consisting of KBC Bank's sister company KBL European Private Bankers and Vitis Life) is considered non-core and will be divested in order to help pay back the capital securities issued to the Belgian and Flemish governments. An agreement was reached in May

2010 to sell these activities to Hinduja group but this sale was cancelled. A new sales process has been launched and led to an agreement in October 2011 to sell KBL European Private Bankers and Vitis Life being signed with Precision Capital (Luxembourg); the process to obtain regulatory approval is underway.

## 17 Material Contracts

KBC Bank has not entered into any material contracts outside the ordinary course of its business which could result in any member of the KBC Bank Group being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligations to Noteholders.

For the sake of completeness and clarity, we have to draw attention to the important transactions concluded by KBC Group with the Belgian State and the Regional Flemish government in order to strengthen capital and to become credit protection for a large part of KBC's structured credit exposure. The content of these transactions has been summarised in 15 (Capital Transactions and Guarantee Agreements with the Government in 2008 and 2009).

## 18 Recent Events

Detailed information is set out in KBC Group's press releases and financial reports, all of which are available on [www.kbc.com](http://www.kbc.com). For the avoidance of doubt, the information available on the KBC website, [www.kbc.com](http://www.kbc.com), shall not be incorporated by reference in, or form part of, this Base Prospectus.

### **Overview of 1Q2012 interim earnings release of KBC Group (parent company of KBC Bank; non-audited, consolidated, IFRS)**

The Group ended the first three months of 2012 with a consolidated net profit of €380 million, compared with a net profit of €437 million in the previous quarter and €821 million in the corresponding quarter of 2011. The 'underlying' net result for the quarter under review (after excluding exceptional items) came to €455 million, well up on the net profit of €161 million in 4Q2011 and down on the €658 million in 1Q2011.

Financial highlights for 1Q2012 compared to 4Q2011:

- Good result characterised by sound underlying business.
- Net interest income (net of divestments) sustained by higher loan and deposit volumes in Belgium.
- Margins only slightly impacted by reduced FX loan book in Hungary.
- Net fee and commission income stable on account of higher fees for mutual funds and successful sales of unit-linked life products.
- Combined ratio non-life insurance stands at an excellent 89% year-to-date.
- Increased insurance premium income driven by higher sales of unit-linked life products.
- Very good dealing room performance.
- Underlying cost/income ratio at 58% year-to-date.
- Credit cost ratio at a low 0.66% year-to-date, almost exclusively accounted for by Ireland. When Ireland is excluded, this ratio stands at 0.18%.
- Strong liquidity with a loan-to-deposit ratio of 90%, a good improvement from 94% at the end of 2011.

- Solvency: continued strong capital base: pro forma tier-1 ratio – including the effect of divestments for which an agreement has been signed to date (of publication of 1Q2012 results) – at approximately 15.5% (with a core tier-1 ratio of 13.6%).

More detail can be found in KBC Group’s Extended Quarterly report 1Q2012, as incorporated by reference herein (see “*Documents incorporated by reference*” above).

## 19 Management of KBC Bank NV

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

Pursuant to article 26 of the Act of 22nd March, 1993 on the legal status and supervision of credit institutions, and article 524bis of the Companies Code, the Board of Directors of KBC Bank has conferred powers on the Executive Committee to perform the acts referred to in Article 522 of the Companies Code and Article 18 of the articles of association of KBC Bank. However, this transfer of powers relates neither to the definition of general policy, nor to the powers which are reserved to the Board of Directors by the other provisions of the Companies Code. The Board of Directors is responsible for the supervision of the Executive Committee. There are no potential conflicts of interest between the duties to KBC Bank of the Members of the Board of Directors of KBC Bank detailed below and their private interests or other duties.

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

| <b>Name and business address</b>                                 | <b>Position</b>       | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>  |
|--|-----------------------|--|--|
| LEYSEN Thomas<br>Dennenlaan 9a<br>Antwerpen 2020                 | Chairman              | 2015   | Chairman of the Board of Directors of Umicore NV<br>Director of UCB NV<br>Chairman of the Board of Directors of Corelio NV<br>Director of De Vijver NV<br>Executive Director of Mediacore NV<br>Executive Director of Tradicor NV<br>Executive Director of Booischoot NV<br>Chairman of the Board of Directors of KBC Verzekeringen NV |
| DE RAYMAEKER Danny<br>KBC Bank NV<br>Havenlaan 2<br>1080 Brussel | Executive<br>Director | 2012   | Member of the Executive Committee of KBC Groep NV<br>Executive Director of KBC Verzekeringen NV<br>Chairman of the Executive Committee of KBC Global Services NV<br>Chairman of the Supervisory Board of KBC Asset Management SA   |

| <b>Name and business address</b>           | <b>Position</b>    | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|--|--------------------|--|---|
|  |                    |  | Chairman of the Supervisory Board of KBC Fund Management Limited            |
|  |                    |  | Member of the Supervisory Board of Valuesource NV                           |
|  |                    |  | Member of the Supervisory Board of Valuesource Technologies Private Limited |
|  |                    |  | Chairman of the Supervisory Board of KBC Lease Holding NV                   |
|  |                    |  | Chairman of the Supervisory Board of CSOB Leasing a.s. (CR)                 |
|  |                    |  | Chairman of the Supervisory Board of CSOB Leasing a.s. (SR)                 |
|  |                    |  | Chairman of the Supervisory Board of Zagiel S.A.                            |
|  |                    |  | Member of the Board of Directors of Romstal Leasing IFN S.A.                |
|  |                    |  | Member of the Supervisory Board of Kredyt Lease SA                          |
| GIJSENS Lucien                             | Executive Director | 2015   | Chairman of the Board of Directors of Old Broad Street Invest NV            |
| KBC Bank NV<br>Havenlaan 2<br>1080 Brussel |                    |  | Member of the Executive Committee of KBC Groep NV                           |
|  |                    |  | Executive Director of KBC Verzekeringen NV                                  |
|  |                    |  | Non-executive Director of KBC Bank Deutschland AG                           |
|  |                    |  | Non-executive Director IIB Finance Ireland                                  |
|  |                    |  | Non-executive Director of KBC Investments Limited                           |
|  |                    |  | Non-executive Director of KBC Financial Holding Inc.                        |
|  |                    |  | Non-executive Director of KBC Financial Products UK Limited                 |
|  |                    |  | Non-executive Director of Mezzafinance NV                                   |
|  |                    |  | Non-executive Director of KBC Securities NV                                 |

| <b>Name and business address</b>           | <b>Position</b>    | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|--|--------------------|--|---|
|  |                    |  | Non-executive Director of KBC Private Equity NV                         |
|  |                    |  | Non-executive Director of KBC Financial Products Hong Kong Limited Ltd. |
|  |                    |  | Non-executive Director of KBC Alternative Investment Management Limited |
|  |                    |  | Non-executive Director of KBC Global Services NV                        |
|  |                    |  | Non-executive Director of KBC Bank Ireland Plc.                         |
|  |                    |  | Non-executive Director of Gemma Frisius-Fonds K.U. Leuven NV            |
|  |                    |  | Non-executive Director of KBC Credit Investments NV                     |
| HOLLOWS John                               | Executive Director | 2013   | Non-executive Director of Nova Ljubljanska banka d.d. "NLB"             |
| KBC Bank NV<br>Havenlaan 2<br>1080 Brussel |                    |  | Executive Director of KBC Verzekeringen NV                              |
|  |                    |  | Executive Director of KBC Groep NV                                      |
|  |                    |  | Member of the Board of Directors of KBC Global Services NV              |
| POPELIER Luc                               | Executive Director | 2013   | Executive Director of KBC Verzekeringen NV                              |
| KBC Bank NV<br>Havenlaan 2<br>1080 Brussel |                    |  | Executive Director of KBC Groep NV                                      |
|  |                    |  | Executive Director of KBC Global Services NV                            |
|  |                    |  | Non-executive Director of KBC Bank Ireland Plc.                         |
|  |                    |  | Non-executive Director of KBC Financial Products UK Limited             |
| THIJS Johan                                | Executive Director | 2013   | Non-executive Director of CBC BANQUE SA                                 |
| KBC Bank NV<br>Havenlaan 2<br>1080 Brussel |                    |  | Non-executive Director of FIDEA NV                                      |

| <u>Name and business address</u>           | <u>Position</u>    | <u>Expiry date<br/>of current<br/>term of office</u> | <u>External offices</u>   |
|--|--------------------|--|---|
|  |                    |  | Non-executive Director of Group VAB NV                                    |
|  |                    |  | Executive Director of KBC Verzekeringen NV                                |
|  |                    |  | Non-executive Director of Towarzystwo Ubezpieczeń i Reasekuracji WARTA SA |
|  |                    |  | Executive Director of KBC Global Services NV                              |
|  |                    |  | Non-executive Director of ADD NV  |
|  |                    |  | Non-executive Director of KBC Financial Indemnity Insurance SA            |
|  |                    |  | Non-executive Director of Directors of Kredietcorp SA                     |
|  |                    |  | Non-executive Director of Assuralia                                       |
|  |                    |  | Non-executive Director of Towarzystwo Ubezpieczeń na Życie WARTA SA       |
|  |                    |  | Non-executive Director of KBC Group NV                                    |
|  |                    |  | Non-executive Director of FBD Holding Plc                                 |
| VOLJC Marko                                | Executive Director | 2014   | Non-executive Director of K&H Bank Zrt                                    |
| KBC Bank NV<br>Havenlaan 2<br>1080 Brussel |                    |  | Member of the Executive Committee of KBC Groep NV                         |
|  |                    |  | Executive Director of KBC Verzekeringen NV                                |
|  |                    |  | Non-executive Director of Commercial bank “Absolut Bank” (ZAO)            |
|  |                    |  | Non-executive Director of Towarzystwo Ubezpieczeń i Reasekuracji WARTA SA |
|  |                    |  | Non-executive Director of Towarzystwo Ubezpieczeń na Życie WARTA SA       |
|  |                    |  | Executive Director of KBC Global Services NV                              |
|  |                    |  | Executive Director of Ceskoslovenska Obchodní Banka a.s. (SR)             |
|  |                    |  | Non-executive Director of Československá Obchodní Banka a.s.(CR)          |

| <b>Name and business address</b>                                 | <b>Position</b>        | <b>Expiry date of current term of office</b> | <b>External offices</b>   |
|--|------------------------|--|---|
|  |                        |  | Non-executive Director of CSOB Pojist'ovna a.s.                                   |
|  |                        |  | Non-executive Director of CIBANK AD   |
|  |                        |  | Non-executive Director of Kredyt Bank SA  |
|  |                        |  | Non-executive Director of DZI Insurance Plc                                       |
|  |                        |  | Non-executive Director of DZI - HEALTH INSURANCE AD                               |
|  |                        |  | Non-executive Director of DZI - GENERAL INSURANCE JSC                             |
| DE JONG Jan Maarten  | Independent Director   | 2013   | Non-executive Director of Heineken NV   |
| “Vondelstaete”<br>P.C. Hoofdstraat<br>175-B<br>1071 BW Amsterdam |                        |  | Non-executive Director of Nutreco Holding NV                                      |
|  |                        |  | Non-executive Director of Onderlinge Levensverzekeringsmaatschappij ‘s-Gravenhage |
|  |                        |  | Non-executive Director of AON Groep Nederland BV                                  |
|  |                        |  | Non-executive Director of CRH Plc   |
| DE WILDE Julien  | Independent Director   | 2014   | Non-executive Director of Arseus  |
| Jabekestraat 49<br>9230 Wetteren                                 |                        |  | Non-executive Director of Nyrstar NV  |
|  |                        |  | Non-executive Director of Telenet Group Holding NV                                |
| DEPICKERE Franky   | Non-executive Director | 2015   | Executive Director of Almancora Beheersmaatschappij NV                            |
| Cera<br>Philipssite 5/10<br>3001 Leuven                          |                        |  | Non-executive Director of Commercial bank “Absolut Bank” (ZAO)                    |
|  |                        |  | Executive Director of Cera cvba   |
|  |                        |  | Non-executive Director of MIKO NV   |
|  |                        |  | Executive Director of Cera Beheersmaatschappij NV                                 |

| <b>Name and business address</b>          | <b>Position</b>        | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|---|------------------------|--|---|
|   |                        |  | Executive Director of BRS VZW   |
|   |                        |  | Non-executive Director of Cera Ancora VZW   |
|   |                        |  | Non-executive Director of International Raiffeisen Union e.V.                               |
|   |                        |  | Non-executive Director CBC BANQUE SA  |
|   |                        |  | Non-executive Director of KBC Groep NV  |
|   |                        |  | Non-executive Director of Almancora VZW   |
|   |                        |  | Non-executive Director of Euro Pool System International BV                                 |
|   |                        |  | Non-executive Director of KBC Verzekeringen NV  |
| DISCRY Luc                                | Non-executive Director | 2014   | Executive Director of Cera CVBA   |
| Cera<br>Philipssite 5 B 10<br>3001 Leuven |                        |  | Non-executive Director of KBC Verzekeringen NV  |
|   |                        |  | Non-executive Director of KBC Groep NV  |
|   |                        |  | Executive Director of De Onderlinge Ziekenkas   |
|   |                        |  | Executive Director of Almancora Beheersmaatschappij NV                                      |
|   |                        |  | Executive Director of Cera Beheersmaatschappij NV   |
| VANTHEMSCHE Pieter                        | Non-executive Director | 2015   | Non-executive Director of Gimv-Agri+ Investment Fund  |
| MRBB<br>Diestsevest 40<br>3000 Leuven     |                        |  | Non-executive Director of KBC Groep NV  |
|   |                        |  | Non-executive Director of M.R.B.B. cvba - Maatschappij voor Roerend Bezit van de Boerenbond |

| <b>Name and business address</b>                        | <b>Position</b>        | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|---|------------------------|--|---|
|   |                        |  | Non-executive Director of Agri Investment Fund CVBA                       |
|   |                        |  | Non-executive Director of BB-Patrim CVBA                                  |
|   |                        |  | Director of KBC Verzekeringen NV  |
| WITTEMANS Marc  | Non-executive Director | 2014   | Non-executive Director of KBC Groep NV                                    |
| MRBB cvba<br>Diestsevest 40<br>3000 Leuven              |                        |  | Non-executive Director of Agro Services CVBA                              |
|   |                        |  | Non-executive Director of Aktiefinvest CVBA                               |
|   |                        |  | Non-executive Director of Arda Immo NV                                    |
|   |                        |  | Non-executive Director of Acerta CVBA                                     |
|   |                        |  | Non-executive Director of Acerta Consult CVBA                             |
|   |                        |  | Non-executive Director of SBB Accountants en Belastingconsulenten BV cvba |
| BOSTOEN Alain   | Non-executive Director | 2016   | Executive Director of Quatorze Juillet BVBA                               |
| Coupure 126<br>9000 Gent<br>Belgium                     |                        |  | Delegate Director of AGROBOS NV   |
|   |                        |  | Non-executive Director of KBC Group NV                                    |
|   |                        |  | Member of the Board of Directors of KBC Verzekeringen NV                  |
|   |                        |  | Executive Director of Christeyns NV                                       |
|   |                        |  | Executive Director of ALGIMO NV   |
| TYTGADT Alain   | Non-executive Director | 2016   | Non-executive Director of KBC Group NV                                    |
| Prinses Josephinelaan 7<br>8300 Knokke-Heist<br>Belgium |                        |  | Chairman of the Board of Directors of Metalunion CVBA                     |

| <b>Name and business address</b>              | <b>Position</b>               | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>  |
|---|-------------------------------|--|--|
|   |                               |  | Non-executive Director of Hallex NV                              |
|   |                               |  | Non-executive Director of Hallex<br>Nederland BV                 |
|   |                               |  | Non-executive Director of Sloestal BV                            |
|   |                               |  | Chairman of the Board of Directors of<br>Sinfonia Investments NV |
|   |                               |  | Non-executive Director of Sobemetal NV                           |
|   |                               |  | Non-executive Director of KBC<br>Verzekeringen NV                |
| FALQUE Daniel                                 | Executive<br>Director         | 2016   | Executive Director of CBC BANQUE SA                              |
| Bovenbosstraat 78<br>3053 Haasrode<br>Belgium |                               |  | Executive Director of KBC Verzekeringen<br>NV                    |
|   |                               |  | Member of the Executive Committee of<br>KBC Group NV             |
|   |                               |  | Executive Director of KBC Asset<br>Management NV                 |
|   |                               |  | Non-executive Director of Febelfin                               |
|   |                               |  | Member of the Board of Directors of BVB                          |
| DONCK Frank                                   | Non-<br>executive<br>Director | 2016   | Executive Director of 3D NV                                      |
| Floridalaan 62<br>1180 Ukkel<br>Belgium       |                               |  | Non-executive Director of Iberanfra<br>BVBA                      |
|   |                               |  | Member of the Board of Directors of<br>Ibervest NV               |
|   |                               |  | Non-executive Director of Ter Wyndt NV                           |
|   |                               |  | Non-executive Director of Ter Wyndt<br>CVBA                      |
|   |                               |  | Member of the Board of Directors of<br>Zenitel NV                |
|   |                               |  | Non-executive Director of Aspel Slovakia<br>sro                  |
|   |                               |  | Non-executive Director of KBC Lease<br>Holding NV                |
|   |                               |  | Non-executive Director of Anchorage NV                           |

| <b>Name and business address</b>              | <b>Position</b>                  | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|---|----------------------------------|--|---|
|   |                                  |  | Non-executive Director of Aspel Polyform SA                         |
|   |                                  |  | Executive Director of Hof Het Lindeken CVBA                         |
|   |                                  |  | Executive Director of Huon & Kauri NV                               |
|   |                                  |  | Non-executive Director of KBC Group NV                              |
|   |                                  |  | Non-executive Director of J. Zinner NV                              |
|   |                                  |  | Non-executive Director of PinguinLutosa NV                          |
|   |                                  |  | Non-executive Director of Winge Golf NV                             |
|   |                                  |  | Non-executive Director of KBC Verzekeringen NV                      |
| MORLION Lode                                  | Non-executive Director           | 2016   | Executive Director of M&D Invest NV                                 |
| Weststraat 18<br>8647 Lo-Reninge<br>Belgium   |                                  |  | Chairman of the Board of Directors of Cera Beheersmaatschappij NV   |
|   |                                  |  | Member of the Board of Directors Woonmaatschappij Ijzer en Zee CVBA |
|   |                                  |  | Non-executive Director of KBC Verzekeringen NV                      |
|   |                                  |  | Non-executive Director of KBC Group NV                              |
| VLERICK Philippe                              | Member of the Board of Directors | 2016   | Deputy Chairman of the Board of Directors of KBC Groep NV           |
| Ronsevaalstraat 2<br>8510 Bellegem<br>Belgium |                                  |  | Non-executive Director of Mercurius Invest NV                       |
|   |                                  |  | Member of the Board of Directors of Concordia Textiles NV           |
|   |                                  |  | Chairman of the Board of Directors of Wilton Weavers Private Ltd.   |
|   |                                  |  | Chairman of the Board of Directors of Indus Kamdhenu Fund           |
|   |                                  |  | Director of EMTHERICK NV  |

| <b>Name and business address</b> | <b>Position</b> | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>  |
|----------------------------------|-----------------|--|--|
|                                  |                 |  | Chairman of the Board of Directors of Lurick NV                              |
|                                  |                 |  | Chairman of the Board of Directors of THERICK NV                             |
|                                  |                 |  | Chairman of the Board of Directors of Vlerick Investeringsmaatschappij CVBA  |
|                                  |                 |  | Chairman of the Board of Directors of Vlerick Vastgoed NV                    |
|                                  |                 |  | Chairman of the Board of Directors of Raymond Uco denim Private Ltd.         |
|                                  |                 |  | Member of the Board of Directors of B.M.T. Nv                                |
|                                  |                 |  | Member of the Board of Directors of ETEX GROUP SA                            |
|                                  |                 |  | Member of the Board of Directors of IVC NV                                   |
|                                  |                 |  | Chairman of the Board of Directors of BATIBIC NV                             |
|                                  |                 |  | Chairman of the Board of Directors of Vobis Finance NV                       |
|                                  |                 |  | Non-executive Director of Isarick NV   |
|                                  |                 |  | Non-executive Director of Charick NV   |
|                                  |                 |  | Chairman of the Board of Directors HIFI International SA                     |
|                                  |                 |  | Deputy Chairman of the Board of Directors of KBL European Private Bankers SA |
|                                  |                 |  | Managing Director of F.B.I. NV   |
|                                  |                 |  | Member of the Board of Directors of HALLO NV                                 |
|                                  |                 |  | Member of the Board of Directors of HAMON & CIE (INTERNATIONAL) SA           |
|                                  |                 |  | Chairman of the Board of Directors of UCO NV                                 |
|                                  |                 |  | Member of the Board of Directors KBC Verzekeringen NV                        |
|                                  |                 |  | Member of the Board of Directors M.T.V. NV                                   |

| <b>Name and business address</b> | <b>Position</b>        | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>  |
|----------------------------------|------------------------|--|--|
|                                  |                        |  | Deputy Chairman of the Board of Directors of Durabilis NV                |
|                                  |                        |  | Managing Director of Point NV  |
|                                  |                        |  | Managing Director of CECAN Invest Nv                                     |
|                                  |                        |  | Executive Director of TESSA LIM NV                                       |
|                                  |                        |  | Member of the Board of Directors of Ispahan NV                           |
|                                  |                        |  | Executive Director of Vrij & Vrank CVBA                                  |
|                                  |                        |  | Executive Director of Creatio Invest NV                                  |
|                                  |                        |  | Chairman of the Board of Directors of Midelco NV                         |
|                                  |                        |  | Deputy Chairman of the Board of Directors of Spector Photo Group NV      |
|                                  |                        |  | Member of the Board of Directors of BESIX Group NV                       |
|                                  |                        |  | Member of the Board of Directors of EXMAR NV                             |
|                                  |                        |  | Chairman of the Board of Directors of VIT NV                             |
|                                  |                        |  | Chairman of the Board of Directors of Belgian International Carpet C° NV |
|                                  |                        |  | Member of the Board of Directors of LVD Company NV                       |
|                                  |                        |  | Deputy Chairman of the Board of Directors of CORELIO NV                  |
|                                  |                        |  | Representative of Hermes Invest NV                                       |
|                                  |                        |  | Chairman of the Board of Directors of Pentahold NV                       |
|                                  |                        |  | Deputy Chairman of the Board of Directors of KBC Groep NV                |
| ROUSSIS Theo                     | Non-executive director | 2016   | Member of the Board of Directors of K&H Bank Zrt                         |
| Poederstraat 51<br>2370 Belgium  |                        |  | Member of the Board of Directors of Polymed Distribution FZE             |
|                                  |                        |  | Member of the Board of Directors of Ravago Holding America, Inc.         |

| <b>Name and business address</b> | <b>Position</b> | <b>Expiry date<br/>of current<br/>term of office</b> | <b>External offices</b>   |
|----------------------------------|-----------------|--|---|
|                                  |                 |  | Member of the Board of Directors of Resinex BMY Plastik Kim.San. Ve Ticaret |
|                                  |                 |  | Member of the Board of Directors of Resinex UK Ltd.                         |
|                                  |                 |  | Member of the Board of Directors of Plastomark (Proprietary) Ltd.           |
|                                  |                 |  | Non-executive Director of Campi Y Jove sau                                  |
|                                  |                 |  | Non-executive Director of Winnco Productos Quimicos sl                      |
|                                  |                 |  | Non-executive Director of Resinex Spain sl                                  |
|                                  |                 |  | Non-executive Director of Pegasus Petrochemical Asia Ltd.                   |
|                                  |                 |  | Non-executive Director of Polymed Global Group Ltd.                         |
|                                  |                 |  | Member of the Board of Directors of Ultra Plastik Boya ve Kimya             |
|                                  |                 |  | Non-executive Director B&R NV   |
|                                  |                 |  | Non-executive Director of Ravago Holding America, Inc.                      |
|                                  |                 |  | Member of the Board of Directors of KBC Verzekeringen NV                    |
|                                  |                 |  | Member of the Board of Directors of KBC Groep NV                            |
|                                  |                 |  | Non-executive Director of Pegasus Trading Co Ltd                            |
|                                  |                 |  | Non-executive Director of Polymed Trading FZE                               |
|                                  |                 |  | Member of the Board of Directors of Ravago Italia SPA                       |

## TAXATION

### The Netherlands

#### General

*The following summary outlines the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Netherlands tax considerations in relation thereto. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.*

*This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Base Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.*

*This summary does not address the Netherlands tax consequences for:*

- (i) holders of Notes holding a substantial interest (aanmerkelijk belang) or deemed substantial interest (fictief aanmerkelijk belang) in the Issuer and holders of Notes of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5 per cent. or more of the total issued capital of the Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of the Issuer; (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;*
- (ii) investment institutions (fiscale beleggingsinstellingen); and*
- (iii) pension funds, exempt investment institutions (vrijgestelde beleggingsinstellingen) or other entities that are exempt from Netherlands corporate income tax.*

Where this summary refers to a holder of Notes, such reference is restricted to a holder holding legal title to, as well as an economic interest in, such Notes.

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

#### Withholding Tax

All payments made by the Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein provided that the Notes do not in fact function as equity of the Issuer within the meaning of article 10, paragraph 1, under d of the Netherlands corporate income tax act 1969 (*Wet op de vennootschapsbelasting 1969*).

#### Corporate and Individual Income Tax

- (i) Residents of the Netherlands*

If a holder is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which the Notes are attributable, income derived from the Notes and

gains realised upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (at up to a maximum rate of 25 per cent.).

If an individual holder is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes (including an individual holder who has opted to be taxed as a resident of the Netherlands), income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are taxable at the progressive rates (at up to a maximum rate of 52 per cent.) under the Netherlands income tax act 2001 (*Wet inkomstenbelasting 2001*), if:

- (i) the holder is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the holder has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*) to which enterprise the Notes are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the holder of the Notes, taxable income with regard to the Notes must be determined on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments has been fixed at a rate of 4 per cent. of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year, insofar as the individual's yield basis exceeds a certain threshold. The individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Notes less the fair market value of certain qualifying liabilities on 1st January. The fair market value of the Notes will be included as an asset in the individual's yield basis. The 4 per cent. deemed return on income from savings and investments will be taxed at a rate of 30 per cent.

(ii) *Non-residents of the Netherlands*

If a holder is not a resident nor is deemed to be a resident of the Netherlands for Netherlands tax purposes (nor has opted to be taxed as a resident of the Netherlands), such holder is not liable to Dutch income tax in respect of income derived from the Notes and gains realised upon the settlement, redemption or disposal of the Notes, unless:

- (i) the holder is not an individual and such holder (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

This income is subject to Netherlands corporate income tax at up to a maximum rate of 25 per cent.

- (ii) the holder is an individual and such holder (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Notes are attributable, or (2) realises income or gains with respect to the Notes that qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*) in the Netherlands, which activities include the performance of activities in the Netherlands with respect to the Notes which exceed regular, active portfolio management

(*normaal, actief vermogensbeheer*), or (3) is (other than by way of securities) entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (1) and (2) is subject to individual income tax at up to a maximum rate of 52 per cent. Income derived from a share in the profits as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under “Residents of the Netherlands”). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual’s Netherlands yield basis.

### **Gift and Inheritance Tax**

#### **(i) *Residents of the Netherlands***

Generally, gift and inheritance tax will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on behalf of, or on the death of, a holder that is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled and is subject to Dutch gift and inheritance tax if the donor is a (deemed) resident of the Netherlands at that time.

A holder of Dutch nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax if he or she has been resident in the Netherlands and dies or makes a donation within ten years after leaving the Netherlands. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift tax if he or she has been resident in the Netherlands and makes a donation within a twelve months period after leaving the Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

#### **(ii) *Non-residents of the Netherlands***

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or as a result of, the death of a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax, unless, in the case of a gift of the Notes by or on behalf of, a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of the Netherlands. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled.

### **Value Added Tax**

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

### **Other Taxes and Duties**

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

## **Belgium**

*The following summary describes the principal Belgian tax considerations with respect to the holding of Notes. This information is of a general nature and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Notes. In some cases, different rules can be applicable. This summary does not describe the tax consequences for a holder of Notes that are redeemable in exchange for, or convertible into assets, of the exercise, settlement or redemption of such Notes or any tax consequences after the moment of exercise, settlement or redemption.. Furthermore, the tax rules can be amended in the future, possibly implemented with retroactive effect, and the interpretation of the tax rules may change.*

*Each prospective holder of Notes should consult a professional adviser with respect to the tax consequences of an investment in the Notes, taking into account the influence of each regional, local or national law.*

### **Withholding Tax and Income Tax**

#### ***Tax rules applicable to natural persons resident in Belgium***

Belgian natural persons who are Belgian residents for tax purposes, i.e., who are subject to the Belgian personal income tax (“*Personenbelasting*”/“*Impôt des personnes physiques*”) and who hold the Notes as a private investment, are in Belgium subject to the following tax treatment with respect to the Notes. Other tax rules apply to Belgian resident individuals who do not hold the Notes as a private investment.

In accordance with Belgian tax law, the following amounts are qualified and taxable as “interest”: (i) periodic interest income (ii) amounts paid by the Issuer in excess of the issue price (whether or not on the maturity date) (iii) if the Notes qualify as “fixed income securities” (in the meaning of article 2, §1, 8° Belgian Income Tax Code), in case of a realisation of the Notes between two interest payment dates, the pro rata of accrued interest corresponding to the detention period. “Fixed income securities” are defined as bonds, specific debt certificates issued by banks (*‘kasbon’/‘bon de caisse’*) and other similar securities, including securities where income is capitalised or securities which do not generate a periodic payment of income but are issued with a discount corresponding to the capitalised interest up to the maturity date of the security.

Payments of interest on the Notes made through a paying agent in Belgium will in principle be subject to a 21 per cent. withholding tax in Belgium (calculated on the interest received after deduction of any non-Belgian withholding taxes). Belgian natural persons do not have to declare the interest on the Notes in their personal income tax return, provided that they have elected for a withholding of the 4 per cent. additional tax on investment income (see below) in addition to the 21 per cent. Belgian withholding tax and provided that this additional tax has effectively been borne by the beneficiary of the interest income.

If the 4 per cent. additional tax on investment income has not been withheld in addition to the Belgian withholding tax, the Noteholder will be required to declare the interest income in his/her personal income tax return. Moreover, in such case, certain information (including the amount of interest income and the identity of the Noteholder) will be communicated to a central contact point operated by the Belgian ministry of Finance (separated from the tax administrations) which in turn will communicate the relevant information to the tax administration on an annual basis (if the total amount of investment income communicated with respect to that holder in the relevant year exceeds the threshold of EUR 20,020 mentioned below) as well as on demand.

Interest income which is declared in the annual personal income tax return will in principle be taxed at a flat rate of 21 per cent., increased with local surcharges (however, the Belgian federal government has approved a

draft bill which, if adopted by the legislator, would abolish such local surcharges) and increased, as the case may be, with the 4 per cent. additional tax on investment income (see below).

Belgian resident individuals who receive qualifying investment income (qualifying interest and qualifying dividends) in an amount exceeding EUR 20,020 (amount for income year 2012) on a yearly basis will be subject to an additional tax on investment income of 4 per cent. on the income exceeding EUR 20,020. Certain investment income is not subject to the additional tax on investment income, i.e. dividend income taxed at 25 per cent., liquidation bonuses, the part of interest on regulated savings accounts taxed at 15 per cent., the income from government bonds issued and subscribed between 24 November and 2 December 2011 and income not considered as taxable moveable income (including the exempt part of interest on regulated savings accounts); however, this investment income is in principle first taken into account to determine whether the EUR 20,020 threshold is exceeded, except for liquidation bonuses, the income from the above mentioned government bonds and income not considered as taxable moveable income (including the exempt part of interest on regulated savings accounts). Interest on the Notes will be taken into account to calculate the EUR 20,020 threshold and will be subject to the 4 per cent. additional tax on investment income if and to the extent that the threshold is exceeded.

If the interest is paid outside Belgium without the intervention of a Belgian paying agent, the interest received (after deduction of any non-Belgian withholding tax) must be declared in the personal income tax return and will be taxed at a flat rate of 21 per cent. increased, as the case may be, with the 4 per cent. additional tax on investment income (see above).

Capital gains realised on the sale of the Notes are in principle tax exempt, unless the capital gains are realised outside the scope of the management of one's private estate or unless the capital gains qualify as interest (as defined above). Capital losses are in principle not tax deductible.

### ***Belgian resident companies***

Corporations Noteholders who are Belgian residents for tax purposes, i.e. who are subject to Belgian Corporate Income Tax ("*Vennootschapsbelasting*" / "*Impôt des sociétés*") are in Belgium subject to the following tax treatment with respect to the Notes.

Interest derived by Belgian corporate investors on the Notes and capital gains realised on the Notes will be subject to Belgian corporate income tax of 33.99 per cent. Capital losses are in principle deductible.

Interest payments on the Notes made through a paying agent in Belgium can under certain circumstances be exempt from withholding tax, provided a special certificate is delivered. The Belgian withholding tax that has been levied is creditable in accordance with the applicable legal provisions.

### ***Belgian legal entities***

Legal entities Noteholders who are Belgian residents for tax purposes, i.e. who are subject to Belgian tax on legal entities ("*Rechtspersonenbelasting*" / "*impôt des personnes morales*") are in Belgium subject to the following tax treatment with respect to the Notes.

In accordance with Belgian tax law, the following amounts are qualified and taxable as "interest": (i) periodic interest income (ii) amounts paid by the Issuer in excess of the issue price (whether or not on the maturity date) (iii) if the Notes qualify as "fixed income securities" (in the meaning of article 2, §1, 8° Belgian Income Tax Code), in case of a realisation of the Notes between two interest payment dates, the pro rata of accrued interest corresponding to the detention period. "Fixed income securities" are defined as bonds, specific debt certificates issued by banks ("*kasbon*" / "*bon de caisse*") and other similar securities, including securities where

income is capitalised or securities which do not generate a periodic payment of income but are issued with a discount corresponding to the capitalised interest up to the maturity date of the security.

Payments of interest on the Notes made through a paying agent in Belgium will in principle be subject to a 21 per cent. withholding tax in Belgium and no further tax on legal entities will be due on the interest.

However, if the interest is paid outside Belgium without the intervention of a Belgian paying agent and without the deduction of Belgian withholding tax, the legal entity itself is required to declare and pay the 21 per cent. withholding tax to the Belgian tax authorities.

Capital gains realised on the sale of the Notes are in principle tax exempt, unless the capital gain qualifies as interest (as defined above). Capital losses are in principle not tax deductible.

### ***Organization for Financing Pensions***

Belgian pension fund entities that have the form of an Organization for Financing Pensions (OFP) are subject to Belgian Corporate Income Tax (“*Vennootschapsbelasting*”/“*Impôt des sociétés*”). OFPs are in Belgium subject to the following tax treatment with respect to the Notes.

Interest derived by OFP Noteholders on the Notes and capital gains realised on the Notes will be exempt from Belgian Corporate Income Tax. Capital losses are in principle not tax deductible.

The Belgian withholding tax that has been levied is creditable in accordance with the applicable legal provisions.

### ***Belgian non-residents***

The interest income on the Notes paid through a professional intermediary in Belgium will, in principle, be subject to a 21 per cent. withholding tax, unless the Noteholder is resident in a country with which Belgium has concluded a double taxation agreement and delivers the requested affidavit. If the income is not collected through a financial institution or other intermediary established in Belgium, no Belgian withholding tax is due.

Non-resident investors can also obtain an exemption of Belgian withholding tax on interest from the Notes if they are the owners or *usufructors* of the Notes and they deliver an affidavit confirming that they have not allocated the Notes to business activities in Belgium and that they are non-residents, provided that (i) the interest is paid through a Belgian credit institution, stock market company or clearing or settlement institution and that (ii) the Notes are not used by the Issuer for carrying on a business in Belgium.

The non-residents who use the Notes to exercise a professional activity in Belgium through a permanent establishment are subject to the same tax rules as the Belgian resident companies (see above). Non-resident Noteholders who do not allocate the Notes to a professional activity in Belgium are not subject to Belgian income tax, save, as the case may be, in the form of withholding tax.

### **European Directive on taxation of savings income in the form of interest payments**

The EU has adopted a directive (European Council Directive 2003/48/EC) regarding the taxation of savings income (hereinafter “Savings Directive”). The Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons resident in another Member State (hereinafter “Disclosure of Information Method”), except that Austria and Luxembourg may instead impose a withholding system (hereinafter “Source Tax”) for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), unless during such period they elect otherwise. A number of third countries and territories have adopted similar measures to the Savings Directive.

### ***Individuals not resident in Belgium***

Interest paid or collected through Belgium on the Notes and falling under the scope of application of the Savings Directive will be subject to the Disclosure of Information Method.

### ***Individuals resident in Belgium***

An individual resident in Belgium will be subject to the provisions of the Savings Directive, if he receives interest payments from a paying agent (within the meaning of the Savings Directive) established in another EU Member State, Switzerland, Liechtenstein, Andorra, Monaco, San Marino, Curaçao, Bonaire, Saba, Sint Maarten, Sint Eustatius (formerly the Netherlands Antilles), Aruba, Guernsey, Jersey, the Isle of Man, Montserrat, the British Virgin Islands, Anguilla, the Cayman Islands or the Turks and Caicos Islands.

If the interest received by an individual resident in Belgium has been subject to a Source Tax, such Source Tax does not liberate the Belgian individual from declaring the interest income in the personal income tax declaration. The Source Tax will be credited against the personal income tax. If the Source Tax withheld exceeds the personal income tax due, the excessive amount will be reimbursed, provided it reaches a minimum of Euro 2.5.

### **Tax on stock exchange transactions and tax on repurchase transactions**

*A taxe sur les opérations de bourse* (tax on stock exchange transactions) will be levied on the purchase and sale in Belgium of the Notes on a secondary market through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.09 per cent. with a maximum amount of Euro 650 per transaction and per party. The tax is due separately from each party to any such transaction, i.e. the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary.

*A taxe sur les reports* (tax on repurchase transactions) at the rate of 0.085 per cent. will be due from each party to any such transaction entered into or settled in Belgium in which a stockbroker acts for either party (with a maximum amount of Euro 650 per transaction and per party).

However none of the taxes referred to above will be payable by exempt persons acting for their own account including investors who are not Belgian residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the *Code des droits et taxes divers* (Code of various duties and taxes) for the *taxe sur les opérations de bourse* and Article 139, second paragraph, of the same code for the *taxe sur les reports*.

### **Gift, estate or inheritance tax**

Except for the gift tax payable in the case of a gift by deed made in Belgium, no gift, estate or inheritance tax is due in Belgium in respect of Notes, unless a Noteholder is resident in Belgium at the time of his death.

### **United Kingdom**

*The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. They assume that neither interest on the Notes nor payments in respect of the Guarantee have a United Kingdom source and, in particular, that neither the Issuer nor the Guarantor is United Kingdom resident or acts through a permanent establishment in the United Kingdom in relation to the Notes. Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.*

## **Interest on the Notes**

Payments of interest on the Notes by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of such Notes HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013.

## **Payments in respect of the Guarantee**

Any payments in respect of the Guarantee may be made without withholding or deduction for or on account of United Kingdom income tax.

## **Luxembourg**

*The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.*

### **Withholding Tax**

#### *(i) Non-resident holders of Notes*

Under Luxembourg general tax laws currently in force and subject to the laws of 21st June, 2005 (the “Laws”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3rd June, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the “Territories”), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 35 per cent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

#### *(ii) Resident holders of Notes*

Under Luxembourg general tax laws currently in force and subject to the law of 23rd December, 2005, as amended (the “Law”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

## **France**

*The following is a summary addressing only the French compulsory withholding tax treatment of income arising from the Notes. This summary is (i) based on the laws and regulations in full force and effect in France as at the date of this Base Prospectus, which may be subject to change in the future, potentially with retroactive effect, and (ii) prepared on the assumption that the Issuer and the Guarantor are not French residents for French tax purposes and are not acting from a French branch or permanent establishment in connection with the Notes. Investors should be aware that the statements below are of a general nature and do not constitute legal or tax advice and should not be understood as such. Prospective investors are therefore advised to consult their own qualified advisors so as to determine, in the light of their individual situation, the tax consequences of the purchase, holding, redemption or sale of the Notes.*

All payments by the Issuer and the Guarantor in respect of the Notes will be made free of any compulsory withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by France or any political subdivision or taxing authority thereof or therein.

The EC Council Directive 2003/48/EC on the taxation of savings income has been implemented into French law under article 242 ter of the French tax code (*Code général des impôts*).

## **Spain**

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Spain, without prejudice to any amendments introduced at a later date and implemented with retroactive effect. This is not intended to be legal or tax advice. This section does not constitute a complete description of all tax issues that may be relevant in making the decision to invest in the Notes or of all the tax consequences that may derive from the subscription, acquisition, holding, transfer, redemption or reimbursement of the Notes and does not purport to describe the tax consequences applicable to categories of investors subject to special tax rules. Prospective Noteholders should therefore consult their

own professional advisers as to the effects of state, local or foreign laws, including Spanish tax law, to which they may be subject.

## **Individuals with Tax Residence in Spain**

### ***Personal Income Tax***

Personal Income Tax is levied on an annual basis on the worldwide income obtained by Spanish resident individuals, whatever the source is and wherever the relevant payer is established. Therefore any income that Spanish Noteholders may receive under the Notes will be subject to Spanish taxation.

Both interest periodically received, if any, and income arising on the disposal, redemption or reimbursement of the Notes obtained by individuals who are tax resident in Spain will be regarded as financial income for tax purposes (i.e. a return on investment derived from the transfer of own capital to third parties).

Both parts of income will be included in the savings part of the taxable income subject to Personal Income Tax. The saving income tax base will be subject to the following tax rates for tax years 2012 and 2013: (i) income up to €6,000 will be taxed at a flat rate of 21 per cent., (ii) income between €6,001 and €24,000 will be taxed at a flat rate of 25 per cent., and (iii) the excess over €24,000 will be subject to a flat rate of 27 per cent.

Spanish Noteholders shall compute the gross interest obtained in the savings part of the taxable base of the tax period in which it is due, including amounts withheld, if any.

Income arising on the disposal, redemption or reimbursement of the Notes will be calculated as the difference between (a) their disposal, redemption or reimbursement value and (b) their acquisition or subscription value. Costs and expenses effectively borne on the acquisition and transfer of the Notes may be taken into account for calculating the relevant taxable income, provided that they can be duly justified.

Likewise, expenses related to the management and deposit of the Notes, if any, will be tax deductible, excluding those pertaining to discretionary or individual portfolio management.

Losses that may derive from the transfer of the Notes cannot be offset if the investor acquires homogeneous securities within the two-month period prior or subsequent to the transfer of the Notes, until he/she transfers such homogeneous securities.

Additionally, tax credits for the avoidance of international double taxation may apply in respect of taxes paid outside Spain on income deriving from the Notes, if any.

### ***Spanish Inheritance and Gift Tax***

Spanish Inheritance and Gift Tax is levied on transfers of Notes upon death or by gift to Spanish tax resident Noteholders, with the taxpayer being the transferee. General tax rates currently range from 7.65 to 81.60 per cent., although the tax situation may vary depending on any applicable regional tax laws.

### ***Spanish Wealth Tax***

For tax years 2011 and 2012, Spanish resident tax individuals are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 held on the last day of any year. Spanish tax resident individuals whose net worth is above €700,000 and who hold Notes on the last day of any year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year (subject to any exceptions provided under relevant legislation in an autonomous region).

## **Legal Entities with Tax Residence in Spain**

### ***Corporate Income Tax***

Both interest periodically received and income derived from the transfer, redemption or reimbursement of the Notes will be included in the CIT taxable income and will be taxed at the general tax rate of 30 per cent. in accordance with the rules for this tax.

Special rates apply in respect of certain types of entities (such as qualifying collective investment institutions).

Tax credits for the avoidance of international double taxation may apply in respect of taxes paid outside Spain on income deriving from the Notes, if any.

### **Individuals and Legal Entities with no Tax Residence in Spain**

A non-resident Noteholder who has a permanent establishment in Spain to which the investment in the Notes is effectively connected, is subject to Spanish Non-Residents' Income Tax on any income under the Notes including both interest periodically received, if any, and income arising on the disposal, redemption or reimbursement of the Notes. In general terms, the tax rules applicable to individuals and legal entities with no tax residence in Spain but acting through a permanent establishment in Spain are the same as those applicable to resident corporate income taxpayers.

### ***Spanish Withholding Tax***

Where a financial institution (either resident in Spain or acting through a permanent establishment in Spain) acts as depositary of the Notes or acts as manager on the collection of any income under the Notes, such financial institution will be responsible for making the relevant withholding on account of Spanish tax on any income deriving from the Notes.

The current withholding tax in Spain is 21 per cent. Amounts withheld in Spain, if any, can be credited against the final Spanish Personal Income Tax liability, in the case of Spanish resident individuals, or against Spanish final Corporate Income Tax liability, in the case of Spanish corporates, or against Non Residents Income Tax, in the case of Spanish permanent establishments of non resident entities. However, Noteholders who are Corporate Income Taxpayers or Non Residents Income Taxpayers acting through a permanent establishment in Spain can benefit from a withholding tax exemption when the Notes are listed in an OECD official stock exchange.

Furthermore, such financial institution may become obliged to comply with the formalities set out in the regulations of Spanish Personal Income Tax and Corporate Income Tax when intervening in the transfer or reimbursement of the Notes.

### ***Indirect Taxation***

The acquisition, transfer, redemption, reimbursement and exchange of the Notes will be exempt from Transfer Tax and Stamp Duty as well as Value Added Tax.

## **Slovakia**

*The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in the Slovak Republic, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Slovak tax law, to which they may be subject.*

### ***Interest received by Slovak tax residents***

Interest income from the Notes received by a Slovak-resident individual is subject to Slovak personal income tax at the flat rate of 19 %. Under certain circumstances, interest income can be subject to Slovak health insurance contributions levied at the rate of 14%.

Interest income from the Notes received by a Slovak-resident legal entity is subject to Slovak corporate tax at the flat rate of 19 %.

If the interest is subject to withholding tax imposed by the source state (the state in which the payer of the interest is tax resident), such withholding tax can be reduced by the relevant double tax treaty between Slovakia and the source state. If reduced withholding tax still applies, either (i) it can be credited against the Slovak tax liability of the recipient (“credit system”) or (ii) the interest can be exempted from taxation in Slovakia (“exemption system”), depending on the relevant double tax treaty.

At present, the double tax treaty between Slovakia and the Netherlands provides for 0% withholding tax on interest and the treaty applies the exemption system described above.

The double tax treaty between Slovakia and Belgium provides for maximum 10% withholding tax on interest and applies the credit system described above.

### ***Capital gains realised by Slovak residents***

Profit realised by a Slovak-resident individual from the disposal of the Notes is subject to Slovak personal income tax at the flat rate of 19%. Such profit is calculated as the difference between the sales price and the costs associated with acquisition of the Notes. The first EUR 500 of the individual’s overall annual capital gains is tax exempt. Loss from the disposal of the Notes is not tax deductible for an individual. Under certain circumstances, profit from the disposal of the Notes can be subject to Slovak health insurance contributions levied at the rate of 14%.

Profit realised by a Slovak-resident legal entity from the disposal of the Notes is subject to Slovak corporate tax at the flat rate of 19%. Such profit is calculated as the difference between the sales price and the costs associated with acquisition of the Notes. Loss from the disposal of the Notes can be treated as tax deductible for a legal entity if the specific conditions prescribed by the Act No. 595/2003 Coll. on Income Tax, as amended, are met.

### ***Revaluation differences***

Slovak tax residents that prepare their financial statements under the Slovak Accounting Standards for Entrepreneurs or under the International Financial Reporting Standards may be required to revalue the Notes to fair value for accounting purposes, whereby the revaluation would be accounted for as revenue or expense. Such revenue is generally taxable and the corresponding expense should be generally tax deductible for Slovak tax purposes.

### ***Registration and stamp duty, other taxes***

Transfers of Notes will not be subject to any registration or stamp duty in Slovakia. There are no other transfer, inheritance, gift, VAT or similar taxes applicable to the transfers and ownership of the Notes in Slovakia.

The EC Council Directive 2003/48/EC on the taxation of savings income has been implemented into the Act No. 595/2003 Coll. on Income Tax, as amended.

## **Hungary**

*The following is a general discussion of certain Hungarian tax consequences of the acquisition, ownership and disposition of Notes by Hungarian tax-resident Noteholders. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the laws of Hungary currently in force and as applied on the date of this Prospectus, which are subject to change, possibly with retroactive effect.*

*Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws of Hungary and each country in which they are tax-resident.*

### ***Taxation of Hungarian tax-resident Noteholders other than individuals***

Hungarian tax-resident Noteholders other than individuals are not subject to Hungarian withholding tax on interest received or capital gains realised in respect of the Notes.

Hungarian tax-resident Noteholders other than individuals are subject to full, all-inclusive corporate income tax liability. Hungarian tax-resident entities are those established under the laws of Hungary. Foreign entities having their place of management in Hungary are also considered to be Hungarian tax-residents. Taxable income is based on the pre-tax profit as shown in the financial statements and adjusted by certain increasing and decreasing items set forth by tax legislation. Taxable income includes all types of income realised during the financial year, such as interest received or capital gains realised in respect of the Notes. Hungarian tax-resident Noteholders other than individuals are subject to the progressive corporate income tax rates of 10 and 19 per cent.

### ***Taxation of individual Hungarian tax-resident Noteholders***

Individual Hungarian tax-resident Noteholders are subject to tax on their worldwide income.

If the Notes are offered to the public, interest received and capital gains realised in respect of the Notes are subject to tax at a flat rate of 16 per cent..

If the Notes are offered by way of a private placement, interest received and capital gains realised in respect of the Notes are considered as other income which is part of the individual's aggregated income, taxed at 16 to 20.32 per cent. (due to the applicable super-gross up mechanism). Other income is also subject to a health tax charge of 27 per cent.

Individual Hungarian tax residents are persons: (i) who are Hungarian citizens; (ii) whose stay in Hungary exceeds 183 days within a calendar year; (iii) who only have a permanent domicile in Hungary; or (iv) whose centre of vital interests is in Hungary, if they do not have a permanent domicile in Hungary or have permanent domiciles both in Hungary and in any other country.

## **Czech Republic**

*The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in the Czech Republic, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Czech tax law, to which they may be subject.*

*Czech tax implications of income from holding or sale of Notes below assume that the investors are not investment, mutual, or pension funds or other entities subject to special tax regime in the Czech Republic.*

#### ***Interest received by Czech tax residents***

Interest income from the Notes received by a Czech-resident individual is subject to Czech personal income tax at the flat rate of 15 %. Interest income from the Notes received by a Czech-resident legal entity is subject to Czech corporate tax at the flat rate of 19 %.

If the interest is subject to withholding tax imposed by the source state (the state in which the payer of the interest is tax resident), such withholding tax can be reduced by the relevant double tax treaty between the Czech Republic and the source state. If reduced withholding tax still applies, either (i) it can be credited against the Czech tax liability of the recipient (“credit system”) or (ii) the interest can be exempted from taxation in the Czech Republic (“exemption system”), depending on the relevant double tax treaty.

At present, the double tax treaty between the Czech Republic and the Netherlands provides for 0% withholding tax on interest and the treaty applies the exemption system described above.

The double tax treaty between the Czech Republic and Belgium provides for maximum 10% withholding tax on interest and applies the credit system described above.

#### ***Capital gains realised by Czech residents***

Profit realised by a Czech-resident individual from the disposal of the Notes is subject to Czech personal income tax at the flat rate of 15% if not exempt. Such profit is calculated as the difference between the sales price and the costs associated with acquisition of the Notes. Loss from the disposal of the Notes is tax deductible for an individual.

Profit realised by a Czech-resident legal entity from the disposal of the Notes is subject to Czech corporate tax at the flat rate of 19%. Such profit is calculated as the difference between the sales price and the costs associated with acquisition of the Notes. Loss from the disposal of the Notes can be treated as tax deductible for a legal entity if the specific conditions prescribed by the Act No. 592/1992 Coll. on Income Tax, as amended, are met.

#### ***Revaluation differences***

Czech tax residents that prepare their financial statements under the Czech Accounting Standards for Entrepreneurs or under the International Financial Reporting Standards may be required to revalue the Notes to fair value for accounting purposes, whereby the revaluation would be accounted for as revenue or expense or as an equity. If such revaluation is accounted for as an income or expense, revenue is generally taxable and the corresponding expense should be generally tax deductible for Czech tax purposes.

#### ***Registration and stamp duty, other taxes***

Transfers of Notes will not be subject to any registration or stamp duty in the Czech Republic. There are no other transfer, inheritance, gift, VAT or similar taxes applicable to the sale and ownership of the Notes in the Czech Republic.

The EC Council Directive 2003/48/EC on the taxation of savings income has been implemented into the Act No. 586/1992 Coll. on Income Tax, as amended.

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

The European Commission has proposed certain amendments to the Savings Directive which may amend or broaden the scope of the requirements described above.

## **SUBSCRIPTION AND SALE**

The Issuer and the Guarantor may agree to reimburse a Dealer for certain of its expenses in connection with the issue of Notes under the Programme and to indemnify such Dealer against certain liabilities incurred by it in connection therewith.

### **General**

Each Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries. None of the Issuer, Guarantor and any other Dealer shall have any responsibility therefor.

None of the Issuer, the Guarantor nor any Dealer represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

In particular (but without limiting the generality of the above), subject to any amendment or supplement which may be agreed with the Issuer and the Guarantor in respect of the issue of any Tranche, each Dealer appointed under the Programme will be required to agree, to comply with the following provisions except to the extent that, as a result of any change in, or the official interpretation of, any applicable laws and/or regulations, non-compliance would not result in any breach of the applicable laws and/or regulations.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer appointed under the Programme will be required to represent and agree, that, it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each issuance of Fixed Rate Notes, Floating Rate Notes, Index Linked Notes, Equity Linked Notes, Commodity Linked Notes or Inflation Linked Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

### **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 Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;
- (d) at any time if the denomination per Note being offered amounts to at least €100,000 (or its equivalent in another currency) per Note; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (e) shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

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

means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## **United Kingdom**

Each Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **The Netherlands**

Pursuant to the Netherlands Savings Certificates Act (*Wet inzake spaarbewijzen* or the “Savings Certificates Act”) of 21st May, 1985, any transfer or acceptance of Notes which falls within the definition of savings certificates (*spaarbewijzen*) in the Savings Certificates Act is prohibited unless the transfer and acceptance is done through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. The aforesaid prohibition does not apply (i) to a transfer and acceptance by natural persons not acting in the course of their business of profession and (ii) to the issue of Notes qualifying as savings certificates to the first holders thereof. If the Savings Certificates Act applies, certain identification requirements in relation to the issue of, transfer of, or payment on Notes qualifying as savings certificates have to be complied with. The Savings Certificates Act is not applicable to the issue and trading of Notes qualifying as savings certificates, if such Notes are physically issued outside the Netherlands and are not immediately thereafter distributed within the Netherlands in the course of primary trading.

## **France**

Each Dealer appointed under the Programme will be required to represent and agree, that:

*Offer to the public in France:*

it has only made and will only make an offer of Notes to the public in France in the period beginning on the date of notification to the *Autorité des marchés financiers* (“AMF”) of the approval of the prospectus relating to those Notes by the competent authority of a Member State of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC, and ending at the latest on the date

which is 12 months after the date of the approval of the base prospectus, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or

*Private placement in France:*

it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the applicable Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

## **Czech Republic**

No permit for the issue of the Notes has been obtained (including the obtaining of the approval of the terms and conditions of the Notes) from the Czech National Bank under Act of the Czech Republic No. 190/2004 Coll., on Bonds (the “Bonds Act”). No action has been taken (including the obtaining of the prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in Section 55 of the Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market (the “Capital Market Act”)) for the purposes of the Notes to qualify as listed securities within the meaning of Section 2(1)(l) of the Capital Market Act.

Each Dealer appointed under the Programme will be required to agree, that it has not offered, sold or otherwise introduced and will not offer, sell or otherwise introduce any Notes in the Czech Republic through a public offering, being - subject to several exemptions set out in the Capital Market Act any communication to a broader circle of persons containing information on the securities being offered and the terms under which they may acquire the securities and which are sufficient for the Investor to make a decision to subscribe for, or purchase, such securities. Any public offering of the Notes by the Dealers may only be made once this Base Prospectus in relation to the Notes has been approved in another Relevant Member State and notified to the Czech National Bank.

Accordingly, any person making or intending to make any offer within the Czech Republic of Notes which are the subject of the placement contemplated in this Base Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offer. Neither the Issuer nor the Dealers have authorised, nor do they authorise, the making of any offer of Notes through any financial intermediary, other than offers made by Dealers which constitute the final placement of Notes contemplated in this Base Prospectus.

Each Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer (if any) that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued in the Czech Republic, the issue of the Notes being classed as “accepting of deposits from the public” by the Issuer in the Czech Republic under Section 2(2)(a) of Act of Czech Republic No.21/1992 Coll., on Banks (as amended) (the “Banks Act”) or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Markets Act, the Bonds Act, the Banks’ Act or the practice of the Czech National Bank.

Each Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer (if any) that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Notes.

### **Hungary**

This Base Prospectus has not been and will not be submitted for approval to the Hungarian Financial Supervisory Authority, its summary has not and will not be translated into Hungarian and the Notes will not be offered in the Republic of Hungary in a public offer as defined in the Act CXX of 2001 on the Capital Markets (the “Capital Markets Act”). Each Dealer has confirmed its awareness of the above and has represented and agreed that it has not offered or sold and will not offer or sell the Notes in the Republic of Hungary in a public offer and will not offer the Notes for sale to investors in the Republic of Hungary other than in accordance with all applicable provisions of the Capital Markets Act.

The preceding paragraph shall not apply, in case any prospectus regarding the Notes and including any amendments thereto had been approved by the relevant prudential authorities of the member state of the issuer and the Hungarian Financial Supervisory Authority had been notified in accordance with the applicable Hungarian laws. Accordingly, any person making or intending to make any offer within Hungary of the Notes which are the subject of the placement contemplated in this Base Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to have a prospectus for such offer approved by the Hungarian Financial Supervisory Authority.

### **Slovak Republic**

No approval of this Base Prospectus has been sought or obtained from the National Bank of the Slovak Republic in accordance with the Slovak Securities Act (No. 566/2001 Coll.) in respect of the Notes. No application has been filed nor has any permission been obtained for accepting, nor has any other arrangement for trading, the Notes on any public market in the Slovak Republic been made. Accordingly, each Dealer has represented and agreed that it has not offered or sold or made any other arrangement, and will not offer or sell or make any other arrangement, in respect of the Notes for their trading in the Slovak Republic, in a manner that would require the approval of this Base Prospectus by the National Bank of the Slovak Republic under the applicable laws valid in the Slovak Republic.

The preceding paragraph shall not apply, in case this Base Prospectus regarding the Notes and including any amendments thereto had been approved by the relevant prudential authorities of the member state of the Issuer and the National bank of the Slovak Republic had been notified in accordance with the applicable laws valid in the Slovak Republic. Accordingly, any person making or intending to make any offer within the Slovak Republic of Notes which are the subject of the placement contemplated in this Base Prospectus shall only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to have a prospectus for such offer approved by the Slovak prudential authorities.

## **Spain**

This Base Prospectus has not been registered with the Spanish Securities Market Regulator (“*Comisión Nacional del Mercado de Valores*”). Accordingly, each Dealer appointed under the Programme will be required to represent and agree that Notes may only be offered to the public in Spain pursuant to and in compliance with Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Management Board of the Issuer dated 20 June 2012, by resolutions of the Supervisory Board of the Issuer dated 21 June 2012 and by resolutions of the sole shareholder of the Issuer dated 25 June 2012. The giving of the Guarantee has been authorised by resolutions of the Guarantor's Executive Committee dated 19 June 2012.

### Listing and admission to trading of Notes on the Luxembourg Stock Exchange

Application has been made to the CSSF for the approval of this document as a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of publication of this Base Prospectus to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will be available during normal business hours at the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg (where applicable, with an English translation thereof):

- (i) the constitutional documents of the Issuer and the constitutional documents of the Guarantor; and
- (ii) the Agency Agreement (including as Schedules the forms of the Temporary Global Note, the Permanent Global Note, the Definitive Note, the Coupon and the Talon), the Guarantee and the Deed of Covenant.

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents will be available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu) and during normal business hours at the registered office of the Issuer:

- (i) a copy of this Base Prospectus;
- (ii) the audited annual non-consolidated financial statements of the Issuer in respect of the financial years ended 31st December, 2011 and 31st December, 2010 and the audited annual consolidated financial statements of the Guarantor in respect of the financial years ended 31st December, 2011 and 31st December, 2010;
- (iii) the Extended Quarterly Report 1Q2012 of KBC Group NV; and
- (iv) any future prospectuses, base prospectuses, information memoranda and supplements including Final Terms relating to Notes which are listed on the Luxembourg Stock Exchange or offered in a Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (whether or not listed on the Luxembourg Stock Exchange).

Copies of each Final Terms (together with the relevant Base Prospectus) relating to Notes which are either admitted to trading on any other regulated market in the European Economic Area or offered in any other

Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will be available for viewing in accordance with Article 14(2) of the Prospectus Directive and the rules and regulations of the relevant regulated market. Copies of each Final Terms relating to any other Notes (together with the relevant Base Prospectus) will only be available for viewing by a holder of such Notes upon production of evidence satisfactory to the Issuer, or the Paying Agent, as the case may be, as to the identity of such holder.

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms. Euroclear and Clearstream, Luxembourg are the entities in charge of keeping the records.

The address of Euroclear is 3 Boulevard du Roi Albert III, B.1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg.

### **Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been:

- (i) no significant change in the financial or trading position of the Issuer or the Guarantor or the KBC Bank Group since 31st March, 2012; and
- (ii) no material adverse change in the financial position, business or prospects of the Issuer, the Guarantor or the KBC Bank Group since 31st December, 2011.

### **Litigation**

#### **KBC IFIMA N.V.**

The Issuer is not involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Issuer.

#### **KBC Bank NV**

This section concerns material litigation to which KBC Bank NV or any of its subsidiaries are party. Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, the 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.

Except for the litigation described in this section, the Guarantor is not involved in any governmental, legal or arbitration proceedings which may have or have had in the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Guarantor.

## Judicial inquiries and criminal proceedings

From late 1995 until early 1997, KBC Bank and KB Consult NV (“KB Consult”) were involved in the sale of “cash companies” to various purchasers. A “cash company” is characterised by the fact that a substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KBC Bank differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KBC Bank and KB Consult discovered that certain purchasers of these cash companies failed to reinvest such companies’ cash in qualifying assets and file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KBC Bank and KB Consult immediately took the necessary measures to prevent any further involvement with these parties. The activities of KB Consult were subsequently wound up. KBC Bank and KB Consult were summoned separately or jointly to court in 28 legal actions. This resulted in 20 lawsuits of which 18 are still pending before the courts. In one occasion KBC Group was summoned to intervene in the lawsuit. A provision of EUR49.2 million (*status 31st March, 2012*) has been constituted to cover the potential impact of any liability with respect to these actions.

In addition to KB Consult and KBC Bank, KBC Group was also summoned before the Chambers section of the Court of First Instance in Bruges on 25<sup>th</sup> February, 2009. The charges against the aforesaid KBC entities relate only to the use of false documents. The trial was postponed several times. On 9<sup>th</sup> November, 2011 a judgment ordered KBC Bank and KB Consult be prosecuted together with 21 other parties indicted of various crimes with regard to tax fraud. KBC Group was dismissed. An appeal was lodged against this dismissal by the Prosecutor and two civil parties.

In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorized speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.

## Other litigation

On 19th June, 2000 ČSOB concluded an “Agreement on Sale of Enterprise” with another Czech bank, IPB, which had been placed under forced administration on 16th 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. ČSOB is party (claimant/plaintiff or defendant) to a number of civil actions that were triggered by the acquisition of the IPB Enterprise.

The most significant action is the so-called **J. Ring-case**. On 13th June, 2007 ČSOB filed a Request for Arbitration against the Czech Republic for CZK1.7 billion (approximately EUR62.3 million) plus interest as a result of the failure of the Czech Republic to reimburse ČSOB in connection with the J. Ring-case. In its response in which it presented its defence in this arbitration proceeding, the Czech Republic asserted in July 2007 a counter-claim of CZK26.7 billion (approximately EUR1 billion). On 29th December, 2010 ČSOB obtained the arbitration award pursuant to which the claim of the Ministry of Finance from 2007 made against ČSOB, concerning the guarantees provided during the takeover of the failing IPB, has been denied. The decision confirms the long-term position of ČSOB, which was always convinced that the procedure during the

bailout of the IPB business, including state guarantees, on which the state and CSOB agreed in 2000, was adequate to the situation and in accordance with the law.

The Czech Republic filed a challenge against the J. Ring award before Austrian courts only with regard to the claim awarded to ČSOB, but did not challenge the decision on its counterclaim, which has now become definite. On 19<sup>th</sup> April, 2012 the Commercial Court in Vienna dismissed the challenge filed by the Ministry of Finance against the J. Ring arbitral award.

In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal Vastgoedmaatschappij contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax related proceedings pending before the Antwerp court. A provision of 26.46 million euros has been set aside to cover potential damages. KBC Bank and subsidiaries like K&H Bank and CSOB SK received several complaints about downgraded **CDO notes** issued by KBC FP and sold to private banking and corporate clients. They claim a buy back of the notes at the original value.

It was decided to examine all CDO related files with respect to private banking and retail clients on a case-by-case basis and to settle the disputes as much as possible out of court. Almost all cases were settled.

As a result of complaints, some Corporate Banking files were also examined by KBC Bank and in a limited number of files settlements were reached.

Only a few lawsuits are ongoing, most of which pending in degree of appeal after judgements in favour of KBC Bank.

In Hungary a marketing brochure was used which could be misinterpreted, which resulted in a fine imposed by both the Hungarian Financial Supervisory Authority (PSZAF) and the Hungarian Competition Authority. K&H lodged an appeal against the first decision and against the judgement rejecting the appeal lodged against the second decision.

In one case a criminal complaint was lodged against KBC Bank in France. The inquiry is still ongoing.

Appropriate provisions have been set aside for the claims still outstanding.

### **Statutory Auditors**

The auditors of the Issuer are Ernst & Young Accountants LLP, Prof. Dr. Dorgelolaan 12, 5613 AM Eindhoven, The Netherlands. The auditors of the Issuer are members of the *Nederlands Instituut voor Registeraccountants*. The Issuer's financial statements for the years ended 31st December, 2010 and 31st December, 2011 and the related auditors' reports are incorporated by reference. The financial statements of the Issuer for the years ended 31st December, 2010 and 31st December, 2011 have been audited in accordance with Dutch GAAP and resulted, in each case, in an unqualified opinion. The auditors of the Issuer have no material interest in the Issuer. The auditors of the Guarantor are Ernst & Young Bedrijfsrevisoren BCVBA (*erkend revisor/révisieur agréé*), represented by P. Vanderbeek and/or C. Weymeersch, with offices at De Kleetlaan 2, B-1831 Diegem Brussels. The auditors of the Guarantor are members of the *Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*. The financial statements of the Guarantor for the years ended 31st December, 2010 and 31st December, 2011 have been audited in accordance with Belgian GAAS and resulted, in each case, in an unqualified opinion. The auditors of the Guarantor have no material interest in the Guarantor.

The reports of the auditors of each of the Issuer and the Guarantor are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

### **Post-issuance information**

The Issuer does not intend to provide any post-issuance information.

### **Dealers transacting with the Issuer and the Guarantor**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer or Guarantor routinely hedge their credit exposure to the Issuer or Guarantor consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Other**

This Base Prospectus prepared in connection with the Notes has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

**THE ISSUER**

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**DEALER**

**KBC Bank NV**  
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Belgium

**ISSUING AND PAYING AGENT**

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**PAYING AGENT**

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**LEGAL ADVISER**

*To the Dealers as to Dutch, Belgian and English law*

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*To the Issuer*

**Ernst & Young Accountants LLP**

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