



KBC GROUP NV

(incorporated with limited liability under the laws of Belgium)

EUR 10,000,000 UP TO EUR 300,000,000 FIRST TO DEFAULT CREDIT LINKED NOTES

The issue price of the EUR 10,000,000 up to EUR 300,000,000 First to Default Credit Linked Notes (the "Notes") of KBC Group NV (the "Issuer") is 101.00 per cent. of their principal amount (the "Issue Price"). The aggregate principal amount of Notes to be issued will be a minimum of EUR 10,000,000 and a maximum of EUR 300,000,000 and the exact amount will be determined by the Issuer taking into account the prevailing market conditions and demand for the Notes and will be announced on the earlier of (i) the date on which the total subscriptions for the Notes equal EUR 300,000,000 in aggregate principal amount and (ii) 13 May 2008.

The Notes are credit linked notes. Following the occurrence of certain credit related events as further described below the Notes may be redeemed before their scheduled date for maturity in certain circumstances or after their scheduled date for maturity in certain other circumstances and the redemption amount of the Notes may be significantly less than the initial principal amount of the Notes and may in certain circumstances be zero, as further described below.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 15 May 2013 (the "Scheduled Maturity Date"). If the Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes at the Credit Event Redemption Amount (which may be significantly less than the initial principal amount of the Notes) on the Credit Event Redemption Date, each as defined and as more fully set forth under "Terms and Conditions of the Notes—Redemption and Purchase". In addition, the date of redemption of the Notes may fall after the Scheduled Maturity Date in certain circumstances, as more fully set forth under "Terms and Conditions of the Notes—Redemption and Purchase". The Notes are subject to redemption in whole at the Early Redemption Amount at the option of the Issuer at any time in the event of certain changes affecting taxation in Belgium, as defined and more fully set forth under "Terms and Conditions of the Notes—Redemption and Purchase".

The Notes will bear interest from 15 May 2008 (the "Interest Commencement Date") at the rate of 5.00 per cent. per annum (the "Rate of Interest") payable annually in arrear on 15 May in each year (each, an "Interest Payment Date") commencing on 15 May 2009 and ending on 15 May 2013. The foregoing is subject to the provisions set forth under "Terms and Conditions of the Notes—Redemption and Purchase". In particular, if the Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes on the Credit Event Redemption Date at the Credit Event Redemption Amount, together with interest accrued at the Rate of Interest from and including the immediately preceding Interest Payment Date (or if none, the Interest Commencement Date) up to but excluding the Credit Event Redemption Date and no further payments of interest in respect of any period thereafter shall be payable, save that if any Partial Redemption Amounts of Notes are redeemed under "Terms and Conditions of the Notes—Redemption and Purchase", interest shall continue to accrue on the principal amount of Notes outstanding after such redemption in accordance therewith. If the date for redemption of the Notes is postponed under the terms of certain provisions set forth under "Terms and Conditions of the Notes—Redemption and Purchase" and the Conditions to Settlement are not satisfied, interest will accrue at the Rate of Interest from and including 15 May 2012 up to but excluding the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be, as further described in "Terms and Conditions of the Notes—Redemption and Purchase", and no further interest in respect of any period thereafter shall be payable.

Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by Belgium to the extent described under "Terms and Conditions of the Notes—Taxation".

This Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "CSSF"), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC (the "Prospectus Directive") as a prospectus issued in compliance with the Prospectus Directive and relevant implementing legislation in Luxembourg for the purpose of giving information with regard to the issue of the Notes. Applications have been made for (1) a certificate of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in Belgium and (2) the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market ("regulated market", which means a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments of 21 April 2004).

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 as defined in Prospectus Directive as implemented in Luxembourg, the Issuer may be responsible to the Investor for this 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 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 Prospectus and/or who is responsible for its contents it should take legal advice.

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 including as to allocations and settlement. **The Issuer will not be a party to any such arrangements with Investors in connection with the offer or sale of the Notes and, accordingly this Prospectus will not contain such information and an Investor must obtain such information from the Offeror.**

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Manager (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denomination of EUR 1,000 each. The Notes will be in the form of a permanent global note (the "Permanent Global Note"), without interest coupons, which will be deposited on or around 15 May 2008 (the "Issue Date") with the National Bank of Belgium ("NBB") as operator of the X/N book-entry clearance and settlement system (the "X/N System"). Ownership of the beneficial interests in the Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by the X/N System, Euroclear Bank SA/NV ("Euroclear"), Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") and their respective participants. Subject to applicable law, the Permanent Global Note will be exchangeable in certain limited circumstances specified in the Permanent Global Note in whole, but not in part, for Notes in definitive form ("Definitive Notes") in the denomination of EUR 1,000 each and with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

KBC BANK

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") other than offers (the "**Permitted Public Offers**") which are made prior to the Offer Period End Date (as defined under "*Summary - Terms and Conditions of the Offer*"), and which are contemplated in this Prospectus in Luxembourg and Belgium once this Prospectus has been approved by the competent authority in Luxembourg and published and notified to the relevant competent authority in accordance with the Prospectus Directive 2003/71/EC as implemented in Belgium, 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 the offering contemplated in this Prospectus, other than the Permitted Public Offers, may only do so in circumstances in which no obligation arises for the Issuer or the Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Manager has authorised, nor do they authorise, the making of any offer (other than Permitted Public Offers) of Notes in circumstances in which an obligation arises for the Issuer or the Manager to publish or supplement a prospectus for such offer.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Manager.

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

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

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 Reference Entities and Reference Obligations and/or other Valuation Obligations.

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 judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or the Manager as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or the Manager 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.* Neither the Issuer nor the Manager is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.

Neither this Prospectus nor any other information supplied in connection with the 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 or Manager that any recipient of this Prospectus or any other information supplied in connection with the 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 the Reference Entities. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Notes.

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

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

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "€", "EUR" or "Euro" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "USD" or "US\$" are to the lawful currency of the United States of America and references to "**billions**" are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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

INFORMATION INCORPORATED BY REFERENCE

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

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

For ease of reference, the tables below set out the relevant page references for the consolidated financial statements, the notes to the consolidated financial statements and the auditors' reports for the years ended 2006 and 2007 for the Issuer, as set out in the respective annual reports or interim report. Any information not listed in the cross-reference table but included in the documents incorporated by reference is given for information purposes only.

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SUMMARY

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

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this summary.

The Issuer:

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

The Manager:

KBC Bank NV

Risk Factors:

Investing in the Notes involves a high degree of risk. The following is only a very brief summary of the risks involved and prospective investors must read carefully the description of various risks in "*Risk Factors*" below. In addition, prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Summary of Risks Relating to the Issuer:

The Issuer is a financial holding company, with direct or indirect ownership and management of shareholdings in other companies. The Issuer has three main direct subsidiaries, KBC Bank, KBC Insurance and KBL.

There are certain factors which may affect the Issuer's ability to fulfil its obligations under the Notes. These include (i) risks relating to economic activity in the markets in which KBC Bank, KBC Insurance and KBL operate and (ii) risks relating to their business activities including credit risk, market risk, operational risk and liquidity risk. Failure to control these risks could result in material adverse effects on the Issuer's financial performance and reputation.

Summary of Risks Relating to the Notes:

The Notes may not be a suitable investment for all investors. The Notes are credit linked notes which involve a high degree of

risk and potential investors should be prepared to sustain a loss of all or part of their investment.

The Notes may be subject to withholding tax and the Issuer shall have no obligation to gross-up in certain circumstances.

The Notes are further subject to risks relating to: credit events, conflicts of interest, modifications, waivers and substitution, change of law, taxation and expenses.

In addition to the above, there are other factors which are material for the purpose of assessing the risk associated with investing in the Notes, which include, without limitation, the fact that the Notes are unsecured obligations of the Issuer, that there may be a time lag between valuation and settlement in relation to the Notes, that there may be the risk that performance of the Issuer's obligations under the Notes may become illegal and that the market value of the Notes may be affected by the creditworthiness of the Issuer.

Summary of Risks Relating to the Market:

The Notes are further subject to risks related to the secondary market generally, the reliance on the procedures of the clearing systems for transfer, payment and communication with the Issuer, exchange rate risks and exchange controls, interest rate risks and legal investment considerations.

The Notes:	EUR 10,000,000 up to EUR 300,000,000 First To Default Credit Linked Notes
Issue Price:	101.00 per cent. of the principal amount of the Notes.
Issue Date:	15 May 2008
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer for general corporate purposes.
Credit Linked Notes	The Notes are credit linked notes and represent an investment whose value is linked to the creditworthiness of the Reference Entities and the performance of the Reference Obligations and/or other Valuation Obligations in respect of such Reference Entities, as described in " <i>Terms and Conditions of the Notes—Redemption and Purchase</i> ".
Credit Linked Note Provisions:	<i>Cash Settlement</i> If a Credit Event occurs, being one of a Failure to Pay, Repudiation/Moratorium or Restructuring in respect of any Reference Entity (as such terms are defined in " <i>Terms and Conditions of the Notes—Redemption and Purchase</i> "), KBC Bank NV as calculation agent may deliver to the Issuer a notice describing such Credit Event (a " Credit Event Notice ") during the Notice Delivery Period (as defined in " <i>Terms and Conditions of the Notes—Redemption and Purchase</i> "). If such a notice is delivered and certain other conditions as set out in Condition 5(b) (<i>Cash Settlement</i>) are satisfied, the Conditions to Settlement will be satisfied. If the Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes at the Credit Event Redemption Amount in euros on the Credit Event Redemption Date (as defined in " <i>Terms and Conditions of the Notes—Redemption and Purchase</i> "), together

with interest accrued at a rate of 5.00 per cent. per annum from the immediately preceding Interest Payment Date (or if none, the Interest Commencement Date) (each as defined below under "*Interest*") up to but excluding the Credit Event Redemption Date. The Credit Event Redemption Amount is an amount equal to the principal amount of a Note, multiplied by a final price expressed as a percentage determined by reference to market valuations of certain Valuation Obligations (as defined in "*Terms and Conditions of the Notes—Redemption and Purchase*") of the Reference Entity in respect of which the Credit Event occurred conducted by KBC Bank NV as calculation agent minus certain costs incurred in connection with the redemption of the Notes and the termination, settlement or re-establishment of hedges in relation to the Notes. The Credit Event Redemption Amount may be less than the principal amount of the Notes and may be zero. Once the Conditions to Settlement have been satisfied in respect of a Reference Entity, the Conditions to Settlement may not be satisfied in respect of any other Reference Entity. No further payments of principal or any interest in respect of any period after the Credit Event Redemption Date will be payable. See further "*Terms and Conditions of the Notes—Redemption and Purchase—Cash Settlement*".

Postponed Maturity Date

- Repudiation/Moratorium Extension

If a potential Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date, a Repudiation/Moratorium Evaluation Date (as defined in "*Terms and Conditions of the Notes—Redemption and Purchase*") will be determined and KBC Bank NV may deliver to the Issuer a notice describing the potential Repudiation/Moratorium. If such a notice is delivered and certain other conditions as set out in Condition 5(c) (*Repudiation/Moratorium Extension*) are satisfied, the Repudiation/Moratorium Extension Condition will be satisfied. If the Repudiation/Moratorium Extension Condition has been satisfied on or prior to 13 May 2013 (the "**Scheduled Termination Date**"), but the Conditions to Settlement have not been satisfied on or prior to such date and the Repudiation/Moratorium Evaluation Date falls after such date, then:

- (i) where a Repudiation/Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date, the Issuer will redeem the Notes at their principal amount on the fifth business day following the Repudiation/Moratorium Evaluation Date, together with interest accrued at a rate of 5.00 per cent. per annum from an including 15 May 2012 up to but excluding the Repudiation/Moratorium Evaluation Date; and
- (ii) where a Repudiation/Moratorium has occurred on or prior to the Repudiation/Moratorium Evaluation Date, the provisions of Condition 5(b) (*Cash Settlement*) (summarised above under "*—Cash Settlement*") will apply and the Issuer will redeem the Notes at the Credit Event Redemption Amount on the Credit Event Redemption Date, together with interest accrued at a rate of 5.00 per cent. per annum from and including 15 May

2012 up to but excluding the Credit Event Redemption Date.

See "*Terms and Conditions of the Notes—Redemption and Purchase—Repudiation/Moratorium Extension*".

- Maturity Date Extension

If (A) on the Scheduled Termination Date or, if applicable, the Repudiation/Moratorium Evaluation Date, the Conditions to Settlement have not been satisfied but, in the opinion of KBC Bank NV, a Credit Event may have occurred, or (B) on the Scheduled Termination Date, in the opinion of KBC Bank NV, a potential Repudiation/Moratorium may have occurred, the date for redemption of the Notes may be postponed to a date falling 14 calendar days after the Scheduled Termination Date or the Repudiation/Moratorium Evaluation Date, as the case may be, (such postponed date of redemption, the "**Postponed Maturity Date**") and:

- (i) where, in the case of (A) above, the Conditions to Settlement are not satisfied on or prior to the Postponed Maturity Date, or, in the case of (B) above, the Repudiation/Moratorium Extension Condition is not satisfied on or prior to the Postponed Maturity Date, the Issuer will redeem the Notes at their principal amount on the fifth business day following the Postponed Maturity Date, together with interest accrued at a rate of 5.00 per cent. per annum from and including 15 May 2012 up to but excluding the Postponed Maturity Date; or
- (ii) where, in the case of (A) above, the Conditions to Settlement are satisfied on or prior to the Postponed Maturity Date, or, in the case of (B) above, the Repudiation/Moratorium Extension Condition is satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 5(c) (*Repudiation/Moratorium Extension*) (summarised above under "*—Repudiation/Moratorium Extension*") will apply.

See "*Terms and Conditions of the Notes—Redemption and Purchase—Maturity Date Extension*".

Credit Event Notice after Restructuring

Upon the occurrence of a Restructuring in respect of a Reference Entity, KBC Bank NV as calculation agent may deliver a Credit Event Notice to the Issuer describing the Restructuring in respect of an amount (the "**Partial Redemption Amount**") that is less than the principal amount outstanding of each Note. In such circumstances the provisions of Condition 5(b) (*Cash Settlement*) (summarised above under "*—Cash Settlement*") will apply to the Partial Redemption Amount only and each such Note will be redeemed in part (such redeemed part being equal to the Partial Redemption Amount). The remaining principal amount of each such Note not so redeemed will remain outstanding and interest will accrue on the principal amount outstanding of such Note. The provisions of Condition 5 (*Redemption and Purchase*) will apply to such remaining principal amount outstanding of such Note in the event that subsequent Credit Event Notices are delivered in respect of the

Reference Entity that was the subject of the Restructuring. Once a Credit Event Notice with respect to a Restructuring has been delivered in respect of a Reference Entity, no further Credit Event Notices may be delivered in respect of any Reference Entity other than the Reference Entity that was the subject of the Restructuring. See "*Terms and Conditions of the Notes—Redemption and Purchase—Credit Event Notice after Restructuring*".

- Redemption where Conditions to Settlement are not satisfied:** Unless previously redeemed or purchased and cancelled, and if the Conditions to Settlement are not satisfied during the Notice Delivery Period, the Notes will be redeemed by the Issuer at their principal amount on 15 May 2013 (the "**Scheduled Maturity Date**"), or, if applicable, on the fifth Business Day after a Postponed Maturity Date or a relevant Repudiation/Moratorium Evaluation Date, as the case may be.
- Tax Redemption:** The Notes are subject to redemption in whole at the Early Redemption Amount (as defined in Condition 5(i) (*Redemption for Tax Reasons*)) at the option of the Issuer at any time in the event of certain changes affecting taxation in Belgium.
- Interest:** The Notes will bear interest from 15 May 2008 (the "**Interest Commencement Date**") at a rate of 5.00 per cent. per annum payable annually in arrear on 15 May in each year (each, an "**Interest Payment Date**") commencing on 15 May 2009 and ending on 15 May 2013. The foregoing is subject to provisions set out under "*Terms and Conditions of the Notes—Redemption and Purchase*". In particular, if Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes on the Credit Event Redemption Date at the Credit Event Redemption Amount, together with interest accrued at a rate of 5.00 per cent. per annum from and including the immediately preceding Interest Payment Date (or if none, the Interest Commencement Date) up to but excluding the Credit Event Redemption Date and no further payments of interest in respect of any period thereafter will be payable, save that if any Partial Redemption Amounts of Notes are redeemed under the terms of Condition 5(f) (*Credit Event Notice after Restructuring*), interest shall continue to accrue on the principal amount of Notes outstanding after such redemption in accordance with such Condition 5(f). If the date for redemption of the Notes is postponed pursuant to certain provisions set out under "*Terms and Conditions of the Notes—Redemption and Purchase*" and the Conditions to Settlement are not satisfied, interest will accrue at a rate of 5.00 per cent. per annum from and including 15 May 2012 up to but excluding the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be, as further described in "*Terms and Conditions of the Notes—Redemption and Purchase*" and no further payments of interest in respect of any period thereafter will be payable. See "*Terms and Conditions of the Notes—Interest*", "*Terms and Conditions of the Notes—Redemption and Purchase*" and "*—Credit Linked Note Provisions*" above.
- Status:** The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.
- Form and Denomination:** The Notes will be issued in bearer form in the denomination of EUR 1,000 each. The Notes will be in the form of a Permanent Global Note, without interest coupons, which will be deposited

on or around the Issue Date with the National Bank of Belgium as operator of the X/N book-entry clearance and settlement ("NBB") system (the "X/N System"). Ownership of the beneficial interests in the Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by the X/N System, Euroclear, Clearstream, Luxembourg and their respective participants. Subject to applicable law, the Permanent Global Note will be exchangeable in certain limited circumstances specified in the Permanent Global Note in whole, but not in part, for Definitive Notes in the denomination of EUR 1,000 each and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

Negative Pledge:	The terms of the Notes do not contain a negative pledge.
Cross Default:	The terms of the Notes do not contain a cross-default provision in respect of the Issuer.
Ratings:	The long-term debt ratings of the Issuer are Aa3 by Moody's Investors Service, Inc., A+ by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. and AA- by Fitch Ratings. The Notes will not be rated.
Withholding Tax:	All payments in respect of the Notes will be made with or without deduction of withholding taxes imposed within Belgium subject as provided in Condition 6 (<i>Taxation</i>). In the event that the Noteholder or Couponholder is an Exempt Investor (as defined in " <i>Taxation - Belgian Taxation</i> "), the Issuer will be required to pay additional amounts to cover the amounts so deducted subject as provided in Condition 6 (<i>Taxation</i>).
Governing Law:	The Notes, the Agency Agreement, the Deed of Covenant and the Subscription Agreement will be governed by English law. The clearing services agreement to be entered into between the Issuer and NBB will be governed by Belgian law.
Passporting, Listing and Trading:	Applications have been made for (1) a certificate of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in Belgium and (2) the Notes to be admitted to listing on the official list and admitted to trading on the Luxembourg Stock Exchange's regulated market.
Terms and Conditions of the Offer:	The Notes may be offered by KBC Bank NV to the public in Belgium in accordance with the following terms and conditions:
Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the definitive amount of the offer:	The aggregate principal amount of Notes to be issued will be a minimum of EUR 10,000,000 and a maximum of EUR 300,000,000 and the exact amount will be determined by the Issuer taking into account the prevailing market conditions and demand for the Notes and will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu on the earlier of (i) the date on which the total subscriptions for the Notes equal EUR 300,000,000 in aggregate principal amount and (ii) 13 May 2008.
Offer Price:	The Notes will be offered to Investors at the Issue Price.
The time period, including any possible amendments, during which the offer will be open and	An offer of the Notes may be made by the Manager other than pursuant to Article 3(2) of the Prospectus Directive in Belgium during the period from 1.00 p.m. (CET) on 21 April 2008 until

description of the application process:	<p>the earlier of (i) the time and date when the Manager announces that the total subscriptions for the Notes equal EUR 300,000,000 in aggregate principal amount and (ii) 5.00 p.m. (CET) on 9 May 2008 (the "Offer Period End Date").</p> <p>To participate in the offering of the Notes, each prospective investor should contact the Manager at his local branch in Belgium or through his usual contacts at the Manager. Each investor will subscribe or purchase the Notes from the Manager in accordance with arrangements existing between the Manager and its customers relating to the subscription of securities generally. Investors will not be required to enter into any contractual arrangements directly with the Issuer in order to subscribe or purchase the Notes.</p>
Conditions to which the offer is subject:	Offers of the Notes are conditional upon their issue. The issue of the Notes is subject to certain conditions precedent customary for transactions of this type as set out in the Subscription Agreement. The Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the issue of the Notes.
Details of the minimum and/or maximum amount of application:	The minimum amount of application is EUR 1,000 and there is no maximum amount.
Method and time limits for paying up the Notes and for delivery of the Notes, process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made:	The Notes will be issued on 15 May 2008 against payment to the Issuer of the net subscription moneys. Investors will be notified by the Manager of their allocations of Notes and the settlement arrangements in respect thereof as soon as practicable after the end of the offer period. Dealings may not begin before notification is made.
The various categories of potential investors to which the Notes are offered:	Offers may be made by KBC Bank NV to its retail and private banking clients in Belgium. In other EEA countries, offers will only be made by the Manager pursuant to an exemption from the obligation to publish a prospectus under the Prospectus Directive as implemented in the relevant countries.
Name and address of intermediaries duly authorised in Belgium, where the offer takes place:	KBC Bank NV Havenlaan 2 1080 Brussels
Clearing Systems:	X/N System, Euroclear and Clearstream, Luxembourg
Selling Restrictions:	Certain restrictions on offer, sale and deliveries of Notes and on the distribution of offering materials apply, including in the United States of America, the European Economic Area, the United Kingdom and Luxembourg. See " <i>Subscription and Sale</i> ".
Financial Information:	See " <i>Description of the Issuer—Selected Financial Information</i> " and the consolidated financial statements, the notes to the consolidated financial statements and the auditors' reports incorporated by reference herein.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not 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 the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons. Prospective investors should also read the detailed information set out elsewhere in this Prospectus 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, ALL THE INFORMATION SET FORTH IN THIS PROSPECTUS AND, IN PARTICULAR, THE CONSIDERATIONS SET FORTH BELOW AND THE TERMS AND CONDITIONS OF THE NOTES. PROSPECTIVE INVESTORS SHOULD MAKE SUCH ENQUIRIES AS THEY DEEM NECESSARY WITHOUT RELYING ON THE ISSUER OR THE MANAGER.

AN INVESTMENT IN NOTES LINKED TO ONE OR MORE REFERENCE ENTITIES, REFERENCE OBLIGATIONS AND/OR OTHER VALUATION OBLIGATIONS ENTAILS SIGNIFICANT RISKS NOT ASSOCIATED WITH INVESTMENTS IN A CONVENTIONAL DEBT SECURITY, INCLUDING BUT NOT LIMITED TO THE RISKS SET OUT BELOW. THE AMOUNT PAID BY THE ISSUER ON REDEMPTION OF THE NOTES MAY BE LESS THAN THE NOMINAL AMOUNT OF THE NOTES, TOGETHER WITH ANY ACCRUED INTEREST, AND MAY IN CERTAIN CIRCUMSTANCES BE ZERO.

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

Words and expressions defined in the "Terms and Conditions of the Notes " below or elsewhere in this Prospectus have the same meanings in this section.

RISKS RELATING TO THE ISSUER AND THE KBC GROUP

Position of the Issuer within the KBC Group

The Issuer is a financial holding company, with direct or indirect ownership and management of shareholdings in other companies. The operations of the KBC Group (as defined in "*Description of the Issuer*") are conducted through direct and indirect subsidiaries of the Issuer. As a holding company, the Issuer's principal sources of funds are dividends, distributions, interest payments and/or advances from its operational subsidiaries and amounts that may be raised through the issue of debt instruments. The ability of such subsidiaries to pay dividends and other amounts to the Issuer may be subject to their profitability and to applicable restrictions on the payment of dividends and other amounts contained in relevant financing or other agreements to which those subsidiaries are party. The Issuer has three main direct subsidiaries, KBC Bank NV ("**KBC Bank**"), KBC Insurance and KBL European Private Bankers SA ("**KBL**").

Risks Relating to KBC Bank

Economic Activity

KBC Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer

confidence, employment trends, the state of the economies that KBC Bank does business in and market interest rates at the time. As KBC Bank currently conducts the majority of its business in Belgium and Central Eastern Europe, its performance is influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in these economies will not have a material effect on KBC Bank's future results.

Risks Relating to KBC Bank's Business

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

Credit Risk

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

Market Risk

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

Operational Risk

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

Liquidity Risk

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

Impact of Regulatory Changes

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

Risks Relating to KBC Insurance

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

Credit Risk

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

Market Risk

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

Operational Risk

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

Insurance Risk

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

Impact of Regulatory Changes

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

Risks Relating to KBL

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

Credit Risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of KBL's businesses. Adverse changes in the credit quality of KBL's borrowers and counterparties or a general deterioration in the Belgian or global economic

conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of its assets and require an increase in KBL's provision for bad and doubtful debts and other provisions.

Market Risk

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

Operational Risk

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

Liquidity Risk

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

Impact of Regulatory Changes

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

RISK RELATING TO THE NOTES

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. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay amounts on or in connection with any Notes for other reasons and the Issuer does 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 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:

- (a) 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 Prospectus;

- (b) 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;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition an investment in the Notes, which are linked to the creditworthiness of the Reference Entities and/or performance of the Reference Obligations and/or other Valuation Obligations, entails significant risks not associated with investments in a conventional debt security, including but not limited to, the risks set out in "*Risks Relating to Credit Linked Notes*" below.

The 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 Relating to Credit Linked Notes

Credit linked notes involve a high degree of risk

Prospective investors in the Notes should understand the risks of transactions involving credit linked notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such credit linked notes in light of their particular financial circumstances, the information set forth herein and the information regarding the relevant credit linked notes and the particular Reference Entities, Reference Obligations and/or other Valuation Obligations to which the value of, or payments in respect of, the relevant Notes may relate.

As the principal payable at redemption may be linked to the performance of the relevant Reference Obligations and/or other Valuation Obligations, an investor in the Notes must generally be correct about the direction, timing and magnitude of an anticipated change in the value of the relevant Reference Obligations and/or other Valuation Obligations.

The Notes will represent an investment linked to the creditworthiness of the Reference Entities and/or economic performance of the Reference Obligations and/or other Valuation Obligations and prospective investors should note that the return (if any) on their investment in the Notes will depend upon such factors. Potential investors should also note that whilst the market value of the Notes is linked to the Reference Entities, Reference Obligations and/or other Valuation Obligations and will be influenced (positively or negatively) by such Reference Entities, Reference Obligations and/or other Valuation Obligations, any change may not be comparable and may be disproportionate. It is impossible to predict how the level of the relevant Reference Obligations and/or other Valuation Obligations will vary over time. In contrast to a direct investment in the relevant Reference Obligations and/or other Valuation Obligations, the Notes represent the right to receive payment of the relevant cash amount on the relevant redemption date as well as periodic payments of interest, all or some of which may be determined by reference to the creditworthiness of the Reference Entities, performance of the relevant Reference Obligations and/or other Valuation Obligations. The Terms and Conditions of the Notes set out the provisions for the determination of any cash amount and of any periodic interest payments.

PROSPECTIVE INVESTORS MUST REVIEW THIS PROSPECTUS TO ASCERTAIN WHAT THE RELEVANT REFERENCE ENTITIES, REFERENCE OBLIGATIONS AND VALUATION OBLIGATIONS ARE AND TO SEE HOW ANY CASH AMOUNTS ARE PAYABLE AND HOW

ANY PERIODIC INTEREST PAYMENTS ARE DETERMINED AND WHEN ANY SUCH AMOUNTS ARE PAYABLE BEFORE MAKING ANY DECISION TO PURCHASE ANY NOTES.

Fluctuations in the value and/or volatility of the relevant Reference Obligations and/or other Valuation Obligations may affect the value of the Notes. Investors in the Notes may risk losing their entire investment if the value of the relevant Reference Obligations and/or other Valuation Obligations does not move in the anticipated direction.

There is no return on the Notes other than the potential payment of the relevant cash amount on the redemption date and payment of any periodic interest payments.

Other factors which may influence the market value of the Notes include interest rates, potential interest payments (as applicable) in respect of the relevant Reference Obligations and/or other Valuation Obligations, changes in the method of calculating the value of the relevant Reference Obligations and/or other Valuation Obligations from time to time and market expectations regarding the future performance of the relevant Reference Obligations and/or other Valuation Obligations, its composition and the Notes.

The Issuer may issue several issues of credit linked notes relating to particular Reference Entities, Reference Obligations and/or other Valuation Obligations. However, no assurance can be given that the Issuer will issue any credit linked notes other than the Notes. At any given time, the number of credit linked notes outstanding may be substantial. Credit linked notes provide opportunities for investment and pose risks to investors as a result of the creditworthiness of the Reference Entities and performance of the Reference Obligations and/or other Valuation Obligations to which such credit linked notes relate.

Credit Events

In the event of the occurrence of certain circumstances (namely, a Failure to Pay, Repudiation Moratorium or Restructuring) in relation to a Reference Entity, the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount of the Notes, calculated by reference to the value of a Reference Obligation or other Valuation Obligations. The Notes are linked to the performance of the Reference Obligations and/or other Valuation Obligations where the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount, calculated by reference to the value of the Reference Obligations and/or other Valuation Obligations, in relation to the Reference Entity in respect of which a Credit Event has occurred and the Conditions to Settlement have first been satisfied.

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

Redemption of the Notes may be earlier or later than the scheduled maturity date following the occurrence of certain credit related events

The Notes are scheduled to be redeemed by the Issuer on the Scheduled Maturity Date, being 15 May 2013. However, if a Credit Event occurs in respect of a Reference Entity and the Conditions to Settlement specified in the terms and conditions of the Notes are satisfied during the Notice Delivery Period, then the Notes will not be redeemed on 15 May 2013, but will instead be redeemed at their Credit Event Redemption Amount on the Credit Event Redemption Date, being the day which is three Business Days after the date on which the Final Price is determined. As a result, the Notes may in these circumstances be redeemed by the Issuer before or after 15 May 2013, as the case may be, as further described in the terms and conditions of the Notes.

In addition, in certain circumstances described in the terms and conditions of the Notes, including, for example, if on the Scheduled Termination Date, being 13 May 2013, or on any Repudiation/Moratorium Evaluation Date, the Calculation Agent determines that the Conditions to Settlement have not been satisfied but that a Credit Event may have occurred or a Potential Repudiation Moratorium may have occurred, then the Calculation Agent may determine that the maturity date of the Notes is to be postponed until the Postponed Maturity Date or the Repudiation/Moratorium Evaluation Date, as the case may be, as more fully set out in the terms and conditions of the Notes. In these circumstances, the Notes will not be redeemed until it is resolved whether the Conditions to Settlement will be satisfied in respect of a

Reference Entity, in which case the Notes are to be redeemed at their Credit Event Redemption Amount on the Credit Event Redemption Date, or whether the Conditions to Settlement will not be satisfied in respect of a Reference Entity, in which case the Notes are to be redeemed at their Redemption Amount on the day which is five Business Days after the Postponed Maturity Date or the Repudiation/Moratorium Evaluation Date, as the case may be, in each case as determined under the terms set out in the terms and conditions of the Notes. Accordingly, prospective investors should be aware that the Notes may in certain circumstances not be redeemed until after 15 May 2013 and in these circumstances the payment of interest under the Notes will be postponed until the date on which the Notes are redeemed as set out below.

Where Notes are to be redeemed after the Postponed Maturity Date or a Potential Repudiation/Moratorium Evaluation Date, as the case may be, and the Conditions to Settlement have not been satisfied, the Issuer will redeem the Notes at their Redemption Amount on the fifth Business Day after the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be, together with interest accrued to and excluding the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be. In these circumstances no interest will be payable in respect of the period after the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be.

Suspension of interest payments

If the maturity date of the Notes is postponed as referred to above and as described in the terms and conditions of the Notes, interest will not be payable on 15 May 2013 and will instead accrue from and including the last annual interest payment date on which interest was paid to Noteholders prior to 15 May 2013 to and excluding the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be, as described in the terms and conditions of the Notes and such interest will be paid on the date on which the Notes are redeemed as referred to above and as described in the terms and conditions of the Notes, except in circumstances where the Conditions to Settlement are satisfied as referred to above.

Determination of losses experienced by Noteholders following a Credit Event

Following the occurrence of a Credit Event in respect of a Reference Entity and the satisfaction of the Conditions to Settlement specified in the terms and conditions of the Notes, the Notes will be redeemed by the Issuer and the amount payable by the Issuer to Noteholders in respect of the Notes will be determined by reference to the Final Price. The Final Price will be determined by reference to market valuations of a portfolio of one or more obligations of the relevant Reference Entity selected by KBC Bank NV as Calculation Agent in its sole and absolute discretion in accordance with the terms and conditions of the Notes and will be expressed as a percentage of the par value of these obligation(s). These market valuations will be conducted on the Valuation Date, being the day which is 125 Business Days after the relevant Credit Event Determination Date, in accordance with the terms and conditions of the Notes.

The amount payable to Noteholders in respect of each Note following satisfaction of the Conditions to Settlement will be the Credit Event Redemption Amount which is equal to the Calculation Amount of the Note (being EUR1,000) multiplied by the Final Price and less pro rata Unwind Costs, being certain costs incurred in connection with the redemption of the Notes and the termination, settlement or re-establishment of hedges in relation to the Notes.

As KBC Bank NV as Calculation Agent has discretion to choose the portfolio of Valuation Obligations used to calculate the severity of losses following a Credit Event in respect of a Reference Entity (i.e. the Final Price), it is likely that the portfolio of Valuation Obligations selected by KBC Bank NV will be obligations of the Reference Entity with the lowest market value that are permitted to be selected pursuant to the terms and conditions of the Notes, thereby minimising the relevant Final Price and maximising the losses that will be experienced by Noteholders on the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement.

In addition, as the Final Price of the selected Valuation Obligations will be determined on a single date, the Valuation Date, Noteholders will be exposed to the market valuations of these Valuation Obligations determined on this date.

There is no "principal protection", "guaranteed interest" or limit on the amount of reduction that may be made to the original principal amount of the Notes if the Conditions to Settlement are satisfied in respect of a Reference Entity. Accordingly, Noteholders will be exposed to the credit of the Reference Entities to the full extent of their investment in the Notes and Noteholders may lose the entire amount invested in the Notes as a result of Credit Events. In fact, no assurance can be made that Noteholders will not lose their entire investment.

Noteholders are at risk of Credit Events from the Trade Date

Prospective investors should be aware that the Conditions to Settlement may be satisfied in respect of any Credit Events occurring in respect of the Reference Entities from and including the Trade Date, being 27 March 2008, and accordingly Noteholders will be at risk to the occurrence of Credit Events in respect of the Reference Entities from and including 27 March 2008.

Risks associated with determination of Final Price using a settlement Protocol

The terms and conditions of the Notes provide that the Calculation Agent may in its sole and absolute discretion determine the Final Price in respect of Valuation Obligations of a Reference Entity (and may adjust any other terms of settlement of the Notes) on the basis of any market protocol that has been established for settling credit derivatives transactions in respect of that Reference Entity including, without limitation, where the Issuer agrees to use such protocol with any of its hedge counterparties. There can be no assurance that Credit Events will be settled on terms that are more or less favourable than the terms that would apply otherwise under the terms and conditions of the Notes. Using a settlement Protocol could also affect the timing of settlement of Credit Events under the Notes and hence the determination of the Final Price. Consequently where a Final Price determined in accordance with a settlement Protocol is less than it would have been if such settlement Protocol had not been used, this could result in a lower recovery value and hence a lower Final Price which will lead to a greater reduction in the amount payable to Noteholders. If the Calculation Agent participates in any auction or other process used to determine Final Prices under the relevant settlement Protocol, it will do so without regard to the interests of the Noteholders.

Notes may be subject to partial redemption following the occurrence of a Restructuring Credit Event

Upon the occurrence of a Restructuring in respect of a Reference Entity, KBC Bank NV as calculation agent may in its sole and absolute discretion elect to deliver a Credit Event Notice to the Issuer describing the Restructuring in respect of an amount (the "**Partial Redemption Amount**") that is less than the principal amount outstanding of each Note. In such circumstances the provisions of Condition 5(b) (*Cash Settlement*) will apply to the Partial Redemption Amount only and each such Note will be redeemed in part (such redeemed part being equal to the Partial Redemption Amount). The remaining principal amount of each such Note not so redeemed will remain outstanding and interest will accrue on the principal amount outstanding of such Note. The provisions of Condition 5 (*Redemption and Purchase*) will apply to such remaining principal amount outstanding of such Note in the event that subsequent Credit Event Notices are delivered in respect of the Reference Entity that was the subject of the Restructuring. See "*Terms and Conditions of the Notes—Redemption and Purchase—Credit Event Notice after Restructuring*".

No Claim against any Reference Item

A Note will not represent a claim against any Reference Entity, Reference Obligation and/or other Valuation Obligation 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 Entity, Reference Obligation and/or other Valuation Obligation. The amount paid by the Issuer on redemption of the 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 Obligations and/or other Valuation Obligations 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 Obligations and/or other Valuation Obligations 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 respect of the Reference Obligations and/or other Valuation Obligations and/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

The Calculation Agent is an affiliate of the Issuer and potential conflicts of interest may exist between the Calculation Agent and Noteholders, including with respect to certain determinations and judgements that the Calculation Agent may make pursuant to the Notes that may influence the amount receivable on redemption of the Notes.

The Issuer and the Manager may at the date hereof or at any time hereafter, be in possession of information in relation to a Reference Entity, Reference Obligation and/or other Valuation Obligation that is or may be material in the context of the Notes and may or may not be publicly available to Noteholders. There is no obligation on the Issuer or the Manager 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 Entity and/or in respect of any Reference Obligation and/or other Valuation Obligation (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. They may also be participants in any auction or other process used to determine a Final Price under a settlement Protocol and they will have no duty to act in the interests of holders of the Notes in any such process.

Risks Relating to Notes generally

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

Notes may be subject to withholding tax and the Issuer shall have no obligation to gross-up in certain circumstances

The Notes will be held in the NBB clearing and settlement system, the X/N System.

Payments of interest made through accounts of non-Exempt Investors (including Belgian resident individuals) are subject to a withholding tax of 15 per cent., which the NBB deducts from the payment and pays over to the tax authorities.

Prospective investors should be aware that the Issuer shall not pay any additional amounts to non-Exempt Investors in respect of such withholding tax. Therefore, the amount of interest received by non-Exempt Investors will be subject to a deduction of 15 per cent.

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 which is not prejudicial to the interests of the Noteholders or any modification of the Notes, the Coupons, the Agency Agreement 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.

The Notes may be redeemed prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or

governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the terms and conditions of the Notes.

Additionally, in the event that the Calculation Agent determines in good faith that the performance of 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 may redeem all outstanding Notes in accordance with the terms and conditions of the Notes.

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income in the form of interest payment (the "**EU Savings Directive**"). The EU Savings Directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the law of 21 June 2005 and in Belgium by the law of 17 May 2004. Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State with details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual resident or certain types of entities called "residual entities" (the "**Residual Entities**"), established in that other Member State (or certain dependent or associated territories being Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba). For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with one of two procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of the withholding will be of 15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% as from 1 July 2011. The transitional period is to commence on the date from which the EU Savings Directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. See European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC).

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

If, following implementation of this Directive, a payment 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, 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.

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 Prospectus.

Taxation and expenses

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.

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.

RISK RELATING TO THE MARKET

The secondary market generally

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

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

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

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the NBB for distribution to their account holders. A holder of a beneficial interest in the Global Note must rely on the procedures of the X/N System, Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Permanent Global Note. Holders of beneficial interests in the Permanent Global Note will not have a direct right under the Permanent Global Note to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

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

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro (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 the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the 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:

- (a) the value and volatility of the Reference Obligation(s);
- (b) the creditworthiness of the Reference Entities;
- (c) market interest and yield rates;
- (d) fluctuations in exchange rates;
- (e) liquidity of the Notes or any Reference Obligation(s) in the secondary market;
- (f) the time remaining to any redemption date or the maturity date;
- (g) 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 Obligation(s) 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 Obligation(s) is below, equal to or not sufficiently above the market price of the Reference Obligation(s) on the Issue Date. The historical market prices of any Reference Obligation should not be taken as an indication of such Reference Obligation'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.

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 advisors 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.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which, upon issue, will represent the terms and conditions applicable to the Notes and, subject to amendment and completion, will be endorsed on or attached to the Permanent Global Note and any Notes in definitive form.

The EUR 10,000,000 up to EUR 300,000,000 First To Default Credit Linked Notes (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) and the Coupons (as defined below) are the subject of a fiscal agency agreement (the "**Agency Agreement**") dated 15 May 2008 made among KBC Group NV (the "**Issuer**"), KBL European Private Bankers SA as fiscal agent (the "**Agent**", which expression shall include any additional or successor agent appointed from time to time in connection with the Notes), KBC Bank NV as domiciliary agent (the "**Domiciliary Agent**" and as calculation agent (the "**Calculation Agent**", which expressions shall include any additional or successor domiciliary agent or calculation agent, as the case may be, appointed from time to time in connection with the Notes), and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents appointed from time to time in connection with the Notes).

Definitive Notes will have interest coupons ("**Coupons**") attached on issue. Global Notes will not have Coupons attached on issue.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes. Any reference herein to "**Couponholders**" shall mean the holders of the Coupons.

The Noteholders and the Couponholders are entitled to the benefit of a Deed of Covenant executed by the Issuer (the "**Deed of Covenant**") dated 15 May 2008. The original of the Deed of Covenant is held by KBC Bank NV as domiciliary agent.

Copies of the Agency Agreement and the Deed of Covenant are available during normal business hours at the specified office of each of the Agent and the other Paying Agents. 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 and the Deed of Covenant 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 shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated.

1. **Form, Denomination and Title**

The Notes are in bearer form and, in the case of Definitive Notes, serially numbered, in the denomination of EUR 1,000.

Title to the Notes and Coupons will pass by delivery. The Issuer, the Agent, the Domiciliary Agent and any other Paying Agent 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 or notice of any previous loss or theft thereof, for all purposes and no person shall be liable for so treating such holder.

*The Notes will be represented by a Permanent Global Note, without Coupons, which will be deposited with the National Bank of Belgium (the "**NBB**") or any successor thereto as operator of the X/N clearing system (the "**X/N System**") on or about 15 May 2008 and will be credited (against payment therefor) to the accounts held with the X/N System. Save as provided by applicable law, the Permanent Global Note will be exchangeable in the limited circumstances specified therein for Definitive Notes with Coupons attached. The Belgian law of 15 December 2005 on the suppression of bearer securities prevents the delivery of Definitive Notes unless delivered to a clearing system, a depositary or another institution for the purpose of their immobilisation.*

The Permanent Global Note will contain provisions which modify these Terms and Conditions as they apply to the Permanent Global Note.

Beneficial interests in the Permanent Global Note will be shown on, and transfers thereof will be effected only through, records maintained in a book-entry form by the X/N System, Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream Luxembourg").

The NBB settlement system maintains securities accounts in the name of authorised participants only. Noteholders therefore will normally not hold their Notes directly at NBB, but will hold them on a securities account with a financial institution which is a participant in the system, or which holds them through another financial institution which is itself a participant. The Belgian royal decree No. 62 of 10 November 1967 and the law of 2 January 1991 regulate this system, and in particular contain provisions aiming at protecting the Noteholders in the event of the insolvency of a financial institution through which Notes are held in the system. The Notes are then to be returned to the respective Noteholders, are not part of the insolvent financial institution's assets, and are not available to the creditors of that financial institution.

Most credit institutions established in Belgium are participants in the NBB system, Euroclear and Clearstream, Luxembourg are also authorised participants. Investors can thus hold their Notes on securities accounts in Euroclear and Clearstream, Luxembourg in the same way as they would for any other types of securities.

More information on the NBB settlement system is available at <http://www.nbbss.be/>.

The clearing and settlement systems of NBB, Euroclear and Clearstream, Luxembourg function under the responsibility of their respective operators. The Issuer and the Agents shall have no responsibility in this respect.

2. **Status of the Notes**

The Notes and the Coupons constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and 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.

3. **Interest**

The Notes bear interest from 15 May 2008 (the "**Interest Commencement Date**"), at the rate of 5.00 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 15 May in each year (each, an "**Interest Payment Date**"), commencing on 15 May 2009 and ending on 15 May 2013, subject as provided in Condition 4 (*Method of Payment*) and Condition 5 (*Redemption and Purchase*).

As further set out in Condition 5(b) (*Cash Settlement*), if the Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes on the Credit Event Redemption Date at the Credit Event Redemption Amount, together with interest accrued at the Rate of Interest from and including the immediately preceding Interest Payment Date (or if none, the Interest Commencement Date) up to but excluding the Credit Event Redemption Date (each as defined in Condition 5(e) (*Additional Definitions*) below) and no further payments of interest in respect of any period thereafter shall be payable save that if any Partial Redemption Amounts of Notes are redeemed under the terms of Condition 5(f) (*Credit Event Notice after Restructuring*) interest shall continue to accrue on the principal amount of Notes outstanding after such redemption, as further set out in Condition 5(f) (*Credit Event Notice after Restructuring*).

If the date for redemption of the Notes is postponed under the terms of Condition 5(c) (*Repudiation/Moratorium Extension*) or Condition 5(d) (*Maturity Date Extension*) and the Conditions to Settlement are not satisfied, interest will accrue at the Rate of Interest from and including the Interest Payment Date immediately preceding the Scheduled Termination Date up to but excluding the Postponed Maturity Date or Repudiation/Moratorium Evaluation Date, as the case may be, and no further payments of interest in respect of any period thereafter shall be payable, in each case as further set out in Condition 5(c) (*Repudiation/Moratorium Extension*) and Condition 5(d) (*Maturity Date Extension*).

Subject to the above, each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is five days after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 50 in respect of each Note of EUR 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure equal to the denomination of such Note divided by the Calculation Amount.

For the purposes of these Terms and Conditions:

"Calculation Amount" means EUR 1,000;

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any period of time (the **"Calculation Period"**) which means the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

4. **Method of Payment**

(a) *Payments*

Subject as provided below, payments 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.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*).

(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, its territories, its possessions and other areas subject to its jurisdiction)).

Upon the date on which any Note in definitive form becomes due and repayable prior to the Maturity Date, unmatured Coupons 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. If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

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.

Payments of principal and interest (if any) in respect of Notes represented by any Global Note whilst held in the X/N System, will be made through the X/N System, Euroclear and Clearstream, Luxembourg in accordance with their respective regulations and practices.

(c) *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 such next following Payment Day would thereby fall into the next calendar month, in which event such date for payment shall be brought forward to the immediately preceding Payment Day) 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 7 (*Prescription*)) 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) the relevant place of presentation; and
 - (B) Luxembourg.
- (ii) a day on which the TARGET System (as defined in Condition 5 (*Redemption and Purchase*)) is open.

(d) *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) the Redemption Amount;
- (ii) the Early Redemption Amount (if any);
- (iii) the Credit Event Redemption Amount (if any);
- (iv) any additional amounts which may be payable with respect to principal under Condition 6 (*Taxation*); and
- (v) 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 6 (*Taxation*).

5. **Redemption and Purchase**

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled and subject to the Conditions to Settlement not being satisfied during the Notice Delivery Period and to Conditions 5(c) and 5(d), each nominal amount of Notes equal to the Calculation Amount will be redeemed by the Issuer at the Redemption Amount on the Maturity Date.

(b) *Cash Settlement*

If the Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction, the "**Credit Event Determination Date**"), the Issuer shall give notice (such notice a "**Settlement Notice**") to the Agent and to the Noteholders in accordance with Condition 11 (*Notices*) and redeem all but not some only of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed by the Issuer at the Credit Event Redemption Amount in euros on the Credit Event Redemption Date, together with interest accrued at the Rate of Interest from and including the immediately preceding Interest Payment Date (or if none, the Interest Commencement Date) up to but excluding the Credit Event Redemption Date. No further payments of principal or interest in respect of any period thereafter shall be payable.

Redemption pursuant to this Condition 5(b) shall apply solely in relation to one Reference Entity, which shall be the first Reference Entity in respect of which the Conditions to Settlement are satisfied (or if a Credit Event occurs in respect of more than one Reference Entity on the same day, the Reference Entity in respect of which the Conditions to Settlement were first satisfied). Once the Conditions to Settlement have been satisfied in respect of a Reference Entity, the Conditions to Settlement may not be satisfied in respect of any other Reference Entity.

If the Conditions to Settlement are satisfied and the Notes become redeemable in accordance with this Condition 5(b), upon payment of the Credit Event Redemption Amounts in respect of the Notes the Issuer shall have discharged its obligations in respect of the Notes and shall have no other liability or obligation whatsoever in respect thereof. The Credit Event Redemption Amount may be less than the Calculation Amount of a Note. Any shortfall shall be borne by the Noteholders and no liability shall attach to the Issuer.

(c) *Repudiation/Moratorium Extension*

Where the Conditions to Settlement have not been satisfied on or prior to the Scheduled Termination Date but the Repudiation/Moratorium Extension Condition has been satisfied on or prior to the Scheduled Termination Date or, if Condition 5(d)(y) applies, the Postponed Maturity Date and the Repudiation/Moratorium Evaluation Date in respect of such Potential Repudiation/Moratorium will, in the sole determination of the Calculation Agent, fall after the Scheduled Termination Date, then the Calculation Agent shall notify the Agent and the Noteholders in accordance with Condition 11 (*Notices*) that a Potential Repudiation/ Moratorium has occurred and:

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

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

(B) the Issuer shall, subject to Condition 5(d) (*Maturity Date Extension*) and without double counting, be obliged to pay interest calculated as provided herein, accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the later to occur of the

Repudiation/Moratorium Evaluation Date and the Postponed Maturity Date (if any) but shall only be obliged to make such payment of interest on the fifth Business Day following the later of the Repudiation/Moratorium Evaluation Date and the Postponed Maturity Date (if any) and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; and

- (ii) where a Repudiation/Moratorium has occurred on or prior to the Repudiation/Moratorium Evaluation Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 5(b) (*Cash Settlement*) shall apply to the Notes.

The Luxembourg Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 5(c) and Condition 5(d).

(d) *Maturity Date Extension*

If:

- (x) on (A) the Scheduled Termination Date or, (B), if applicable, the Repudiation/Moratorium Evaluation Date, as the case may be, the Conditions to Settlement have not been satisfied but, in the opinion of the Calculation Agent, a Credit Event may have occurred; or
- (y) on the Scheduled Termination Date, in the opinion of the Calculation Agent a Potential Repudiation/Moratorium may have occurred,

the Calculation Agent may notify the Agent and the Noteholders in accordance with Condition 11 (*Notices*) that the Scheduled Maturity Date or the Repudiation/Moratorium Evaluation Date, as the case may be, has been postponed to a date (such date the "**Postponed Maturity Date**") specified in such notice falling 14 calendar days after the Scheduled Termination Date or the Repudiation/Moratorium Evaluation Date, as the case may be, and

where:

- (i) in the case of Condition 5(d)(x) above, the Conditions to Settlement are not satisfied on or prior to the Postponed Maturity Date or, in the case of Condition 5(d)(y) above, the Repudiation/Moratorium Extension Condition is not satisfied on or prior to the Postponed Maturity Date:

- (A) subject as provided below, each nominal amount of Notes equal to the Calculation Amount will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Postponed Maturity Date; and
- (B) the Issuer shall be obliged to pay interest calculated as provided herein accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Postponed Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Postponed Maturity Date and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; or

- (ii) where:

- (A) in the case of Condition 5(d)(x) above, the Conditions to Settlement are satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 5(b) (*Cash Settlement*) shall apply to the Notes; or
- (B) in the case of Condition 5(d)(y) above, the Repudiation/Moratorium Extension Condition is satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 5(c) (*Repudiation/Moratorium Extension*) shall apply to the Notes.

The Luxembourg Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 5(d).

(e) *Additional Definitions*

For the purposes of these Terms and Conditions:

"Accreted Amount" means, with respect to an Accreting Obligation, an amount equal to (a) the sum of (i) the original issue price of such obligation and (ii) the portion of the amount payable at maturity that has accreted in accordance with the terms of the obligation (or as otherwise described below), less (b) any cash payments made by the obligor thereunder that, under the terms of such obligation, reduce the amount payable at maturity (unless such cash payments have been accounted for in (a)(ii) above), in each case calculated as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Valuation Date. Such Accreted Amount shall not include any accrued and unpaid periodic cash interest payments. If an Accreting Obligation is expressed to accrete pursuant to a straight line method or if such Obligation's yield to maturity is not specified in, nor implied from, the terms of such Obligation, then, for the purposes of (a)(ii) above, the Accreted Amount shall be calculated using a rate equal to the yield to maturity of such Obligation. Such yield shall be determined on a semi annual bond equivalent basis using the original issue price of such obligation and the amount payable at the scheduled maturity of such obligation, and shall be determined as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Valuation Date. The Accreted Amount shall exclude, in the case of an Exchangeable Obligation, any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"Accreting Obligation" means any obligation (including, without limitation, a Convertible Obligation or an Exchangeable Obligation), the terms of which expressly provide for an amount payable upon acceleration equal to the original issue price (whether or not equal to the face amount thereof) plus an additional amount or amounts (on account of original issue discount or other accruals of interest or principal not payable on a periodic basis) that will or may accrete, whether or not (a) payment of such additional amounts is subject to a contingency or determined by reference to a formula or index, or (b) periodic cash interest is also payable.

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

"Business Day" means a day on which the TARGET System is open and which is a Calculation Agent City Business Day.

"Calculation Agent City Business Day" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in London.

"Conditionally Transferable Obligation" means a Valuation Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Valuation Obligation other than Bonds, provided, however, that a Valuation Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Reference Entity or the guarantor, if any, of a Valuation Obligation other than Bonds (or the consent of the relevant obligor if a Reference Entity is guaranteeing such Valuation Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Valuation Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Valuation Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Valuation Obligation shall not be considered to be a requirement for consent for purposes of this definition of "Conditionally Transferable Obligation". For purposes of determining whether a Valuation Obligation satisfies the requirements of the definition of Conditionally Transferable Obligation, such determination shall be made as of the Valuation Date, taking into account only

the terms of the Valuation Obligation and any related transfer or consent documents which have been obtained by the Issuer.

"Conditions to Settlement" means the delivery by the Calculation Agent to the Issuer of a Credit Event Notice and a Notice of Publicly Available Information, that is effective, in each case, during the Notice Delivery Period.

"Convertible Obligation" means any obligation that is convertible, in whole or in part, into Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

"Credit Event" means the occurrence of any one or more of Failure to Pay, Repudiation/Moratorium or Restructuring, as determined by the Calculation Agent.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

- (a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation;
- (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation, however described;
- (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or
- (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

"Credit Event Notice" means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Credit Event that occurred at or after 12.01 a.m. Greenwich Mean Time on the Trade Date and at or prior to 11.59 p.m., Greenwich Mean Time, on the later of:

- (i) the Scheduled Termination Date; and
- (ii) the Repudiation/Moratorium Evaluation Date if:
 - (A) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/Moratorium that occurs after the Scheduled Termination Date;
 - (B) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs at or prior to 11.59 p.m., Greenwich Mean Time, on the Scheduled Termination Date; and
 - (C) the Repudiation/Moratorium Extension Condition is satisfied.

A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. A Credit Event Notice shall be subject to the requirements regarding notices set out in Condition 11 (*Notices*).

"Credit Event Redemption Amount" means an amount in euros calculated by the Calculation Agent equal to:

$$(A \times B) - C$$

where:

"A" is the Calculation Amount;

"B" is the Final Price; and

"C" is Unwind Costs,

provided that in no event shall the Credit Event Redemption Amount be less than zero.

"Credit Event Redemption Date" means the day falling three Business Days after the calculation of the Final Price.

"Default Requirement" means USD 10,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency as of the occurrence of the relevant Credit Event.

"Downstream Affiliate" means an entity, at the date of issuance of the Qualifying Guarantee, whose outstanding Voting Shares are more than 50 per cent. owned, directly or indirectly, by the Reference Entity. **"Voting Shares"** shall mean those shares or other interests that have the power to elect the board of directors or similar governing body of an entity.

"Due and Payable Amount" means, subject as provided in sub paragraph (3)(v) of paragraph (B) (*Interpretation of Provisions*) in the definition of Valuation Obligation, the amount that is due and payable under (and in accordance with the terms of) a Valuation Obligation on the Valuation Date, whether by reason of acceleration, maturity, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross ups and other similar amounts).

"Eligible Transferee" means each of the following:

- (a)
 - (i) any bank or other financial institution;
 - (ii) an insurance or reinsurance company;
 - (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in sub paragraph (c)(i) below); and
 - (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship),
provided, however, in each case that such entity has total assets or at least U.S.\$500 million;
- (b) an Affiliate of an entity specified in the preceding sub paragraph (a);
- (c) each of a corporation, partnership, proprietorship, organisation, trust or other entity:
 - (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (1) has total assets of at least U.S.\$100 million or (2) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least U.S.\$100 million; or
 - (ii) that has total assets of at least U.S.\$500 million; or

- (iii) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in sub paragraphs (a), (b), (c)(ii) or (d); and
- (d) a Sovereign, Sovereign Agency or Supranational Organisation.

All references in this definition to U.S.\$ include equivalent amounts in other currencies.

"Equity Securities" means:

- (i) in the case of a Convertible Obligation, equity securities (including options and warrants) of the issuer of such obligation or depositary receipts representing equity securities of the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time; and
- (ii) in the case of an Exchangeable Obligation, equity securities (including options and warrants) of a person other than the issuer of such obligation or depositary receipts representing those equity securities of a person other than the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time.

"Exchangeable Obligation" means any obligation that is exchangeable, in whole or in part, for Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

"Failure to Pay" means after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure.

"Final Price" means (i) where one Valuation Obligation is specified to comprise the Valuation Portfolio, the price of the Valuation Obligation, expressed as a percentage and determined in accordance with the Valuation Method or, where applicable, Condition 5(f) (*Credit Event Notice after Restructuring*); or (ii) where more than one Valuation Obligation is specified to comprise the Valuation Portfolio, the aggregate of the weighted average prices for the Valuation Obligations, expressed as a percentage and determined in accordance with the Valuation Method or, where applicable, Condition 5(f) (*Credit Event Notice after Restructuring*) and the weighted average price in relation to each Valuation Obligation shall be determined by reference to the Outstanding Principal Balance of each such Valuation Obligation as a proportion of the total Outstanding Principal Balance for all the Valuation Obligations. The Calculation Agent shall as soon as practicable after obtaining all Quotations for a Valuation Date, make available for inspection by Noteholders at the specified office of the Agent and, for so long as the Notes are listed on the Luxembourg Stock Exchange at the office of the Paying Agent in Luxembourg (i) each such Quotation that it receives in connection with the calculation of the Final Price and (ii) a written computation showing its calculation of the Final Price.

In the event that any trade association or other body, including ISDA, publishes an auction settlement process for which a Final Price or equivalent amount is determined in respect of credit derivative transactions referencing the Reference Entity (the "**Protocol**") and the Calculation Agent determines in its sole and absolute discretion to adhere to the Protocol in determining the Final Price in respect of the Notes, including without limitation, where adherence to such Protocol has been agreed between the Issuer and any of its hedge counterparties, then the Final Price determined by reference to the Protocol shall be deemed to be the Final Price for the purposes of calculating the Credit Event Redemption Amount in respect of the Notes and the Calculation Agent will make such adjustments to those Conditions as it deems appropriate to give effect to this determination (including, without limitation, terms relating to the timing and amount of the settlement of the Notes).

"Full Quotation" means, in accordance with the Quotation Method each firm quotation obtained from a Quotation Dealer at the Valuation Time, to the extent reasonably practicable, for an amount of the Reference Obligation with an Outstanding Principal Balance equal to the Quotation Amount.

"Fully Transferable Obligation" means a Valuation Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required, in the case of any Valuation Obligation other than Bonds. Any requirement that notification of novation, assignment or transfer of a Valuation Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Valuation Obligation shall not be considered to be a requirement for consent for purposes of this definition of "Fully Transferable Obligation". For purposes of determining whether a Valuation Obligation satisfies the requirements of this definition of "Fully Transferable Obligation", such determination shall be made as of the Valuation Date, taking into account only the terms of the Valuation Obligation and any related transfer or consent documents which have been obtained by the Issuer.

"Governmental Authority" means any *de facto or de jure* government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Reference Entity or of the jurisdiction of organisation of a Reference Entity.

"Grace Period" means:

- (a) subject to paragraph (b) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred; and
- (b) if, at the later of the Trade Date and the date as of which an Obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation; *provided that* such deemed Grace Period shall expire no later than the Scheduled Termination Date.

"Grace Period Business Day" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation and if a place or places are not so specified, in the jurisdiction of the Obligation Currency.

"Market Value" means, with respect to a Valuation Obligation on a Valuation Date:

- (a) if more than three Full Quotations are obtained, the arithmetic mean of such Full Quotations, disregarding the Full Quotations having the highest and lowest values (and, if more than one such Full Quotations have the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);
- (b) if exactly three Full Quotations are obtained, the Full Quotation remaining after disregarding the highest and lowest Full Quotations (and, if more than one such Full Quotations have the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);
- (c) if exactly two Full Quotations are obtained, the arithmetic mean of such Full Quotations;
- (d) if fewer than two Full Quotations and a Weighted Average Quotation is obtained, such Weighted Average Quotation;
- (e) if fewer than two Full Quotations are obtained and no Weighted Average Quotation is obtained, subject as provided in the definition of Quotation, an amount as determined by the Calculation Agent on the next Business Day on which two or more Full Quotations or a Weighted Average Quotation is obtained; and

- (f) if two or more Full Quotations or a Weighed Average Quotation are not obtained on or prior to the tenth Business Day following the applicable Valuation Date the Market Value shall be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day, or if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day.

"Maturity Date" means the Scheduled Maturity Date subject to Conditions 5(c) (*Repudiation/Moratorium Extension*) and 5(d) (*Maturity Date Extension*) above.

"Minimum Quotation Amount" means USD 1,000,000 (or its equivalent in the relevant Obligation Currency).

"Modified Eligible Transferee" means any bank, financial institution or other entity which is regularly engaged in an established for the purpose of making, purchasing or investing in loans, securities and other financial assets.

"Modified Restructuring Maturity Limitation Date" means, with respect to a Valuation Obligation, the date that is the later of (x) the Scheduled Maturity Date and (y) 60 months following the Restructuring Date in the case of a Restructured Bond or Loan, or 30 months following the Restructuring Date in the case of all other Valuation Obligations.

"Notice Delivery Period" means the period from and including the Trade Date to and including (a) the Scheduled Termination Date; (b) the Repudiation/Moratorium Evaluation Date if (i) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/Moratorium that occurs after the Scheduled Termination Date, (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date and (iii) the Repudiation/Moratorium Extension Condition is satisfied; or (c) the Postponed Maturity Date if the Maturity Date is postponed pursuant to Condition 5(d) (*Maturity Date Extension*).

"Notice of Publicly Available Information" means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that cites Publicly Available Information confirming the occurrence of the Credit Event or Potential Repudiation/Moratorium, as applicable, described in the Credit Event Notice or Repudiation/Moratorium Extension Notice. In relation to a Repudiation/Moratorium Credit Event, the Notice of Publicly Available Information must cite Publicly Available Information confirming the occurrence of both clauses (i) and (ii) of the definition of Repudiation/Moratorium. The notice given must contain a copy or description in reasonable detail, of the relevant Publicly Available Information. If a Credit Event Notice or Repudiation/Moratorium Extension Notice, as applicable, contains Publicly Available Information, such Credit Event Notice or Repudiation/Moratorium Extension Notice will also be deemed to be a Notice of Publicly Available Information.

"Obligation" means:

- (a) any obligation of a Reference Entity (either directly, or as provider of any Qualifying Guarantee) determined pursuant to the method described in "*Method for Determining Obligations*" below; and
- (b) each Reference Obligation.

Method for Determining Obligations. For the purposes of paragraph (a) of this definition of "Obligation", the term "Obligation" may be defined as each obligation of each Reference Entity described by the Obligation Category as of the date of the event which constitutes the Credit Event which is the subject of the Credit Event Notice. **"Obligation Category"** means **"Borrowed Money"**, which means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding unpaid drawings in respect of principal)

for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit).

"Obligation Currency" means the currency or currencies in which the Obligation is denominated.

"Outstanding Principal Balance" means, subject as provided in sub paragraph (3)(v) of paragraph (B) (*Interpretation of Provisions*) in the definition of Valuation Obligation:

- (i) with respect to any Accreting Obligation, the Accreted Amount thereof; and
- (ii) with respect to any other obligation, the outstanding principal balance of such obligation,

Provided That with respect to any Exchangeable Obligation that is not an Accreting Obligation, "Outstanding Principal Balance" shall exclude any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"Payment Requirement" means USD 1,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency as of the occurrence of the relevant Failure to Pay.

"Permitted Currency" means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership), or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Co operation and Development and has a local currency long term debt rating of either AAA or higher assigned to it by Standard & Poor's, a division of The McGraw Hill Companies, Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody's Investors Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the rating business thereof.

"Potential Repudiation/Moratorium" means the occurrence of an event described in paragraph (i) of the definition of Repudiation/Moratorium.

"Publicly Available Information" means:

- (a) information that reasonably confirms any of the facts relevant to the determination that the Credit Event or a Potential Repudiation/Moratorium, as applicable, described in a Credit Event Notice or Repudiation/Moratorium Extension Notice has occurred and which:
 - (i) has been published in or not less than the Specified Number of Public Sources, regardless of whether the reader or user thereof pays a fee to obtain such information provided that, if either the Calculation Agent or the Issuer or any of its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless either the Calculation Agent or the Issuer or any of its Affiliates is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation;
 - (ii) is information received from or published by (A) a Reference Entity or, as the case may be, a Sovereign Agency in respect of a Reference Entity which is a Sovereign or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation;
 - (iii) is information contained in any petition or filing instituting a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or in a petition is for the winding-up or liquidation of, against or by a Reference Entity; or

- (iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.
- (b) In the event that the Calculation Agent is (i) the sole source of information in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation and (ii) a holder of the Obligation with respect to which a Credit Event has occurred, the Calculation Agent shall be required to deliver to the Issuer a certificate signed by a Managing Director (or other substantially equivalent title) of the Calculation Agent, which shall certify the occurrence of a Credit Event with respect to a Reference Entity.
- (c) In relation to any information of the type described in paragraphs (a)(ii), (iii) and (iv) above, the Calculation Agent may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the entity disclosing such information has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to third parties.
- (d) Publicly Available Information need not state:
 - (i) in relation to the definition of "Downstream Affiliate", the percentage of Voting Shares owned, directly or indirectly, by the Reference Entity; and
 - (ii) that such occurrence:
 - (A) has met the Payment Requirement or Default Requirement;
 - (B) is the result of exceeding any applicable Grace Period; or
 - (C) has met the subjective criteria specified in certain Credit Events.

"Public Source" means each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos and The Australian Financial Review (and successor publications), the main source(s) of business news in the country in which the Reference Entity is organised and any other internationally recognised published or electronically displayed news sources).

"Qualifying Affiliate Guarantee" means a Qualifying Guarantee provided by a Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of that Reference Entity.

"Qualifying Guarantee" means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the **"Underlying Obligation"**) for which another party is the obligor (the **"Underlying Obligor"**). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced or otherwise altered or assigned (other than by operation law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being delivered together with the delivery of the Underlying Obligation.

"Quotation" means each Full Quotation and the Weighted Average Quotation obtained and expressed as a percentage with respect to a Valuation Date in the manner that follows:

- (a) The Calculation Agent shall attempt to obtain Full Quotations with respect to each Valuation Date from five or more Quotation Dealers. If the Calculation Agent is unable to obtain two or more such Full Quotations on the same Business Day within three Business Days of a Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the tenth Business Day following the

relevant Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from five or more Quotation Dealers and, if two or more Full Quotations are not available, a Weighted Average Quotation. If the Calculation Agent is unable to obtain two or more Full Quotations or a Weighted Average Quotation on the same Business Day on or prior to the tenth Business Day following the applicable Valuation Date the Quotations shall be deemed to be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day, or if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day. Such Quotations shall not include accrued but unpaid interest.

- (b) If any Quotation obtained with respect to an Accreting Obligation is expressed as a percentage of the amount payable in respect of such obligation at maturity, such Quotation will instead be expressed as a percentage of the Outstanding Principal Balance for the purposes of determining the Final Price.

"Quotation Amount" means an amount not exceeding the aggregate nominal amount of outstanding Notes (or its equivalent in the relevant Obligation Currency converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained).

"Quotation Dealer" means a dealer in obligations of the type of Obligation(s) for which Quotations are to be obtained as selected by the Calculation Agent in its sole and absolute discretion.

"Quotation Method" means **"Bid"**, which means that only bid quotations shall be requested from Quotation Dealers.

"Redemption Amount" means EUR1,000 per Calculation Amount.

"Reference Entity" means each of the Kingdom of Spain, the Kingdom of Belgium, the Republic of France, the Hellenic Republic and the Republic of Italy.

"Reference Obligation" means, in respect of each Reference Entity, the corresponding obligation under the heading "Reference Obligation" below and any Substitute Reference Obligation:

Reference Entity:	Reference Obligation:
Kingdom of Spain	Primary Obligor: Reference Entity Guarantor: None Maturity: 30 July 2017 Coupon: 5.5% CUSIP/ISIN: ES0000012783 Bloomberg Code: EC5325724
Kingdom of Belgium	Primary Obligor: Reference Entity Guarantor: None Maturity: 28 September 2010 Coupon: 5.75% CUSIP/ISIN: BE0000295049

Reference Entity:	Reference Obligation:
	Bloomberg Code: EC2179793
French Republic	Primary Obligor: Reference Entity Guarantor: None Maturity: 25 October 2015 Coupon: 3% CUSIP/ISIN: FR0010216481 Bloomberg Code: EF0069809
Hellenic Republic	Primary Obligor: Reference Entity Guarantor: None Maturity: 22 October 2022 Coupon: 5.90% CUSIP/ISIN: GR0133002155 Bloomberg Code: EC5552707
Republic of Italy	Primary Obligor: Reference Entity Guarantor: None Maturity: 27 September 2023 Coupon: 6.875% CUSIP/ISIN: US465410AH18 Bloomberg Code: TT3163389

"Repudiation/Moratorium" means the occurrence of both of the following events:

- (i) an authorised officer of a Reference Entity or a Governmental Authority:
 - (x) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement; or
 - (y) declares or imposes a moratorium, standstill, roll over or deferral, whether *de facto* or *de jure*, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement; and
- (ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring, determined without regard to the Default Requirement, with respect to any such Obligation occurs on or prior to the Repudiation/Moratorium Evaluation Date.

"Repudiation/Moratorium Evaluation Date" means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date, (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (B) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium. For the purposes of the foregoing, **"Bond or Loan"** has the meaning given under the definition of Valuation Obligation Category below.

"Repudiation/Moratorium Extension Condition" means the delivery of a Repudiation/Moratorium Extension Notice and Notice of Publicly Available Information by the Calculation Agent to the Issuer that is effective during the period from and including the Trade Date to and including the Scheduled Termination Date or, if Condition 5(d)(y) applies, the Postponed Maturity Date.

"Repudiation/Moratorium Extension Notice" means an irrevocable notice (which may be by telephone) from the Calculation Agent to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Potential Repudiation/Moratorium that occurred on or after the Trade Date and on or prior to the Scheduled Termination Date. A Repudiation/Moratorium Extension Notice must contain a description in reasonable detail of the facts relevant to the determination that a Potential Repudiation/Moratorium has occurred and indicate the date of the occurrence. The Potential Repudiation/Moratorium that is the subject of the Repudiation/Moratorium Extension Notice need not be continuing on the date the Repudiation/Moratorium Extension Notice is effective.

"Restructuring" means, with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between a Reference Entity or a Governmental Authority and a sufficient number of holders of the Obligation to bind all the holders of such Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred:

- (i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;
- (ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
- (iii) a postponement or other deferral of a date or dates for either (i) the payment or accrual of interest or (ii) the payment of principal or premium;
- (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation. For the purposes of the foregoing, **"Subordination"** means, with respect to an obligation (the **"Subordinated Obligation"**) and another obligation of the Reference Entity to which such obligation is being compared (the **"Senior Obligation"**), a contractual, trust or other similar arrangement providing that (i) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account; or
- (v) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency.

Notwithstanding the above provisions, none of the following shall constitute a Restructuring:

- (a) the payment in euro of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

- (b) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
- (c) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity.

For purposes of the definition of Restructuring and Condition 5(g) (*Provisions relating to Multiple Holder Obligation*), the term Obligation shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to the Reference Entity in the definition of Restructuring and the definition of Subordination above shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in the second paragraph of this definition of Restructuring shall continue to refer to the Reference Entity.

"Restructured Bond or Loan" means an Obligation which is a Bond or Loan and in respect of which the Restructuring that is the subject of a Credit Event Notice has occurred, where **"Bond or Loan"** has the meaning given under the definition of Valuation Obligation Category below.

"Restructuring Date" means, with respect to a Restructured Bond or Loan, the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring.

"Restructuring Maturity Limitation Date" means the date that is the earlier of (x) thirty months following the Restructuring Date and (y) the latest final maturity date of any Restructured Bond or Loan, *provided, however, that* under no circumstances shall the Restructuring Maturity Limitation Date be earlier than the Scheduled Termination Date or later than thirty months following the Scheduled Termination Date and if it is, it shall be deemed to be the Scheduled Termination Date or thirty months following the Scheduled Termination Date, as the case may be.

"Scheduled Maturity Date" means 15 May 2013.

"Scheduled Termination Date" means 13 May 2013.

"Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including without limiting the foregoing, the central bank) thereof.

"Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign.

"Sovereign Restructured Valuation Obligation" means an Obligation of a Sovereign Reference Entity (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred and (b) described by the Valuation Obligation Category specified below, and, subject to paragraph (2) of "(B) Interpretation of Provisions" in the definition of "Valuation Obligation", having each of the Valuation Obligation Characteristics, in each case, immediately preceding the date on which such Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring without regard to whether the Obligation would satisfy such Valuation Obligation Category or Valuation Obligation Characteristics after such Restructuring.

"Specified Number" means two Public Sources.

"Substitute Reference Obligation" means one or more obligations of a Reference Entity (either directly or as provider of any Qualifying Guarantee) that will replace one or more Reference Obligations in respect of such Reference Entity, identified by the Calculation Agent in accordance with the following procedures:

- (a) In the event that:

- (i) a Reference Obligation in respect of such Reference Entity is redeemed in whole; or
- (ii) in the opinion of the Calculation Agent (A) the aggregate amounts due under any Reference Obligation in respect of such Reference Entity have been materially reduced by redemption or otherwise (other than due to any scheduled redemption, amortisation or prepayments), (B) any Reference Obligation in respect of such Reference Entity is an Underlying Obligation with a Qualifying Guarantee of a Reference Entity and, other than due to the existence or occurrence of a Credit Event, the Qualifying Guarantee is no longer a valid and binding obligation of such Reference Entity enforceable in accordance with its terms or (C) for any other reason, other than due to the existence or occurrence of a Credit Event, any Reference Obligation in respect of a Reference Entity is no longer an obligation of such Reference Entity,

the Calculation Agent shall identify one or more Obligations to replace such Reference Obligation in respect of a Reference Entity.

- (b) Any Substitute Reference Obligation or Substitute Reference Obligations shall be an Obligation that (1) ranks *pari passu* (or, if no such Obligation exists, then, at the option of the Issuer an Obligation that ranks senior) in priority of payment with such Reference Obligation (with the ranking in priority of payment of such Reference Obligation being determined as of the later of (A) the Trade Date and (B) the date on which such Reference Obligation was issued or incurred and not reflecting any change to such ranking in priority of payment after such later date), (2) preserves the economic equivalent, as closely as practicable as determined by the Calculation Agent of the delivery and payment obligations of the Issuer and (3) is an obligation of a Reference Entity (either directly or as provider of any Qualifying Guarantee). The Substitute Reference Obligation or Substitute Reference Obligations identified by the Calculation Agent shall, without further action, replace such Reference Obligation or Reference Obligations.
- (c) If any of the events set forth in paragraph (a) above has occurred with respect to any Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for that Reference Obligation, then the Calculation Agent shall continue to attempt to identify a Substitute Reference Obligation until the later of (A) the Scheduled Termination Date and (B) the Repudiation/Moratorium Evaluation Date (if any). If (i) the Reference Obligation is the only Valuation Obligation and (ii) on or prior to the later of (A) the Scheduled Termination Date or (B) the Repudiation/Moratorium Evaluation Date, a Substitute Reference Obligation has not been identified, the obligations of the Issuer under the Notes shall cease as of the later of (A) the Scheduled Termination Date or (B) the Repudiation/Moratorium Evaluation Date.
- (d) For the purposes of identification of a Reference Obligation, any change in the Reference Obligation's CUSIP or ISIN number or other similar identifier will not, in and of itself, convert such Reference Obligation into a different Obligation.

"Supranational Organisation" means any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns, and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development.

"TARGET" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises interlinked national real time gross settlement systems and the European Central Bank's payment mechanism and which began operations on 4 January 1999.

"TARGET2" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"**TARGET System**" means:

- (a) until such time as TARGET is permanently closed down and ceases operations, TARGET and TARGET2; and
- (b) following such time as TARGET is permanently closed down and ceases operations, TARGET2.

"**Trade Date**" means 27 March 2008.

"**Unwind Costs**" means an amount determined by the Calculation Agent equal to the sum of (without duplication) all costs, fees, charges, expenses (including loss of funding), tax and duties incurred by the Issuer and/or any of its Affiliates in connection with the redemption of the Notes and the related termination, settlement or re establishment of any hedge or related trading position, such amount to be apportioned pro rata amongst each nominal amount of Notes in the Calculation Amount.

"**Valuation Date**" means the date that is 125 Business Days after the Credit Event Determination Date.

"**Valuation Method**" means "**Highest**", which means the highest Quotation obtained by the Calculation Agent with respect to the Valuation Date. Notwithstanding the foregoing, if Quotations include Weighted Average Quotations or fewer than two Full Quotations, the Valuation Method shall be "**Market**", which means the Market Value determined by the Calculation Agent with respect to the Valuation Date.

"**Valuation Obligation**" means:

- (a) any obligation of a Reference Entity (either directly or as provider of any Qualifying Guarantee) determined pursuant to the method described in "*(A) Method for Determining Valuation Obligations*" below that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of "Credit Event" above) or right of set off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being valued apart from the giving of any notice of non payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement;
 - (b) subject to the second paragraph of the definition of "Not Contingent" in "*(A) Method for Determining Valuation Obligations*" below, each Reference Obligation; and
 - (c) solely in relation to a Restructuring applicable to a Sovereign Reference Entity, any Sovereign Restructured Valuation Obligation that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a)–(d) of the definition of "Credit Event" above) or right of set off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being valued apart from the giving of any notice of non payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement.
- (A) *Method for Determining Valuation Obligations.* For the purposes of this definition of "Valuation Obligation", the term "Valuation Obligation" may be

defined as each obligation of each Reference Entity described by the Valuation Obligation Category, and, subject to (B)(2) below, having each of the Valuation Obligation Characteristics, in each case, as of the Valuation Date. The following terms shall have the following meanings:

- (1) **"Valuation Obligation Category"** means **"Bond or Loan"**, which means any obligation that is either a Bond or a Loan, where:
 - (i) **"Bond"** means any obligation of a type included in the "Borrowed Money" Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money; and
 - (ii) **"Loan"** means any obligation of a type included in the "Borrowed Money" Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money.

- (2) **"Valuation Obligation Characteristics"** means any one or more of Specified Currency, Not Contingent, Assignable Loan, Consent Required Loan, Transferable, Maximum Maturity and Not Bearer where:
 - (i) **"Specified Currency"** means an obligation that is payable in any of the lawful currencies of Canada, Japan, Switzerland, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies;
 - (ii) **"Not Contingent"** means any obligation having as of the Valuation Date and all times thereafter an Outstanding Principal Balance or, in the case of obligations that are not Borrowed Money, a Due and Payable Amount, that pursuant to the terms of such obligation may not be reduced as a result of the occurrence or non occurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall constitute Valuation Obligations that are Not Contingent if such Valuation Obligation otherwise meets the requirements of the preceding sentence so long as, in the case of a Convertible Obligation or an Exchangeable Obligation, the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date.

If a Reference Obligation is an Exchangeable Obligation, then such Reference Obligation may be included as a Valuation Obligation only if the rights referred to in clauses (A) and (B) of paragraph (i) above have not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date;
 - (iii) **"Assignable Loan"** means a Loan that is capable of being assigned or novated to, at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of

organisation) that are not then a lender or a member of the relevant lending syndicate, without the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if a Reference Entity is guaranteeing such Loan) or any agent;

- (iv) "**Consent Required Loan**" means a Loan that is capable of being assigned or novated with the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if a Reference Entity is guaranteeing such loan) or any agent;
- (v) "**Transferable**" means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction, provided that none of the following shall be considered contractual, statutory or regulatory restrictions:
 - (a) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation); or
 - (b) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds;
- (vi) "**Maximum Maturity**" means an obligation that has a remaining maturity from the Valuation Date of not greater than 30 years; and
- (vii) "**Not Bearer**" means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via Euroclear, Clearstream, Luxembourg or any other internationally recognised clearing system.

(B) *Interpretation of Provisions.*

- (1) In respect of the Valuation Obligation Characteristic "Not Bearer", these Terms and Conditions shall be construed as though such Valuation Obligation Characteristic had been specified as a Valuation Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Valuation Obligation Category. In respect of the Valuation Obligation Characteristic "Transferable" these Terms and Conditions shall be construed as though such Valuation Obligation Characteristic had been specified as a Valuation Obligation Characteristic only with respect to Valuation Obligations that are not Loans (and shall only be relevant to the extent that obligations other than Loans are covered by the selected Valuation Obligation Category). In respect of the Valuation Obligation Characteristic "Assignable Loan", or "Consent Required Loan" these Terms and Conditions shall be construed as though such Valuation Obligation Characteristic had been specified as a Valuation Obligation Characteristic only with respect to Loans and shall only be relevant if Loans are covered by the selected Valuation Obligation Category;
- (2) The Valuation Obligations may include any Loan that satisfies any one of the Valuation Obligation Characteristics of Assignable Loan or

Consent Required Loan and need not satisfy both such Valuation Obligation Characteristics; and

- (3) In the event that an Obligation or a Valuation Obligation is a Qualifying Guarantee, the following will apply:
- (i) For purposes of the application of the Obligation Category or the Valuation Obligation Category, the Qualifying Guarantee shall be deemed to be described by the same category or categories as those that describe the Underlying Obligation.
 - (ii) For purposes of the application of the Valuation Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date the Valuation Obligation Characteristic of Specified Currency.
 - (iii) For purposes of the application of the Valuation Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date each of the applicable Valuation Obligation Characteristics of Not Contingent, Assignable Loan, Consent Required Loan, Transferable, Maximum Maturity and Not Bearer.
 - (iv) For purposes of the application of the Valuation Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to refer to the Underlying Obligor.
 - (v) The terms "Outstanding Principal Balance" and "Due and Payable Amount" (as they are used in these Terms and Conditions, when used in connection with Qualifying Guarantees are to be interpreted to be the then "Outstanding Principal Balance" or "Due and Payable Amount", as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee.

For the avoidance of doubt the provisions of this paragraph (B) apply in respect of the definitions of Obligation and Valuation Obligation as the context admits.

- (4) In the event that Restructuring is the only Credit Event specified in the Credit Event Notice relating to the Reference Entity in respect of which a Valuation Obligation is being selected then an obligation will only qualify as a Valuation Obligation if it is either:
- (i) a Fully Transferable Obligation and has a final maturity date not later than the Restructuring Maturity Limitation Date; or
 - (ii) is a Conditionally Transferable Obligation and has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date.

"Valuation Portfolio" means one or more Valuation Obligations with an aggregate Outstanding Principal Balance excluding accrued but unpaid interest equal to or less than the aggregate nominal amount of outstanding Notes, as selected by the Calculation Agent in its sole and absolute discretion. For the avoidance of doubt, the total aggregate Outstanding Principal Balance of all Valuation Obligations which comprise the Valuation Portfolio shall not exceed the aggregate nominal amount of outstanding Notes.

"Valuation Time" means 11.00 a.m. London Time.

"Weighted Average Quotation" means in accordance with the Quotation Method, the weighted average of firm quotations obtained from Quotation Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of the Reference Obligation with an Outstanding Principal Balance of as large a size as available but less than the Quotation Amount (but of a size equal to the Minimum Quotation Amount or, if quotations of a size equal to the Minimum Quotation Amount are not available, quotations as near in size as practicable to the Minimum Quotation Amount) that in aggregate are approximately equal to the Quotation Amount.

(f) *Credit Event Notice after Restructuring*

Notwithstanding anything to the contrary in these Terms and Conditions, upon the occurrence of a Restructuring during the Notice Delivery Period:

- (a) the Calculation Agent may deliver a Credit Event Notice in respect of an amount (the **"Partial Redemption Amount"**) that is less than the principal amount outstanding of each Note immediately prior to the delivery of such Credit Event Notice. In such circumstances the provisions of Condition 5(b) (*Cash Settlement*) shall be deemed to apply to the Partial Redemption Amount only and each such Note shall be redeemed in part (such redeemed part being equal to the Partial Redemption Amount).
- (b) For the avoidance of doubt (i) the principal amount of each such Note not so redeemed in part shall remain outstanding and interest shall accrue on the principal amount outstanding of such Note as provided in Condition 3 (*Interest*) (adjusted in such manner as the Calculation Agent in its sole and absolute discretion determines to be appropriate), (ii) the provisions of this Condition 5 shall apply to such principal amount outstanding of such Note in the event that subsequent Credit Event Notices are delivered in respect of the Reference Entity that was the subject of the Restructuring and (iii) once a Credit Event Notice with respect to a Restructuring has been delivered in respect of a Reference Entity, no further Credit Event Notices may be delivered in respect of any Reference Entity other than the Reference Entity that was the subject of the Restructuring.
- (c) On redemption of part of each such Note the relevant Note or, if the Notes are represented by a Permanent Global Note, such Permanent Global Note, shall be endorsed to reflect such part redemption.

(g) *Provisions relating to Multiple Holder Obligation*

Notwithstanding anything to the contrary in the definition of Restructuring and related provisions, the occurrence of, agreement to, or announcement of, any of the events described in sub paragraphs (i) to (v) of the definition of "Restructuring" shall not be a Restructuring unless the Obligation in respect of any such events is a Multiple Holder Obligation *provided that* any Obligation that is a Bond shall be deemed to satisfy the requirement in (ii) of the definition of "Multiple Holder Obligation" below, where **"Bond"** has the meaning given to it under the definition of Valuation Obligation Category above.

"Multiple Holder Obligation" means an Obligation that (i) at the time of the event which constitutes a Restructuring is held by more than three holders that are not Affiliates of each other and (ii) with respect to which a percentage of holders (determined pursuant to the terms of the Obligation as in effect on the date of such event) at least equal to sixty six and two thirds is required to consent to the event which constitutes a Restructuring.

(h) *Calculation Agent and Calculation Agent Notices*

Whenever the Calculation Agent is required to act or exercise judgment, it will do so in good faith and in a commercially reasonable manner. The Calculation Agent shall, as soon as practicable after making any determination pursuant to this Condition 5, 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 this Condition 5 shall (in the absence of manifest error) be final and binding on the Issuer and the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent and the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

In relation to the delivery by the Calculation Agent to the Issuer of any notice pursuant to this Condition 5, a notice delivered on or prior to 4:00 p.m. (London time) on a Calculation Agent City Business Day will be effective on such Calculation Agent City Business Day. A notice delivered after 4:00 p.m. (London time) on a Calculation Agent City Business Day or on a day which is not a Calculation Agent City Business Day will be deemed effective on the next following Calculation Agent City Business Day, regardless of the form in which it is delivered. For purposes of the two preceding sentences, a notice given by telephone will be deemed to have been delivered at the time the telephone conversation takes place. If the notice is delivered by telephone, a written confirmation will be executed and delivered confirming the substance of that notice within one Calculation Agent City Business Day of that notice. Failure to provide that written confirmation will not affect the effectiveness of that telephonic notice.

(i) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 11 (*Notices*), 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 6 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of 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 Trade Date; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

Each nominal amount of Notes equal to the Calculation Amount redeemed pursuant to this Condition 5(i) will be redeemed by the Issuer at the Early Redemption Amount. For the purposes of these Terms and Conditions, the "**Early Redemption Amount**" means, with respect to each Calculation Amount, such amount(s) determined by the Calculation Agent which shall represent the fair market value of such Calculation Amount on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Calculation Agent in its sole and absolute discretion.

(j) *Illegality*

In the event that the Calculation Agent determines in good faith that the performance of 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 11 (*Notices*) (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.

(k) *Purchases*

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

(l) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 5(k) (*Purchases*) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

6. **Taxation**

All payments of principal and/or interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other charges of whatever nature imposed or levied by or on behalf of 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 Issuer 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 presented for payment:

- (i) by or on behalf of a Noteholder or Couponholder who 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 Belgium other than the mere holding of such Note or Coupon; or
- (ii) where such withholding or deduction is imposed because the Noteholder or Couponholder is not an Exempt Investor or is an Exempt Investor but is not holding the relevant Note or Coupon in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees; or
- (iii) by, or on behalf of, a Noteholder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so; or
- (iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on such thirtieth day; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (vi) by or on behalf of a holder who would have been 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, "**Exempt Investor**" means a person who is entitled to hold securities through a so called "**X account**" (being an account exempted from withholding tax) in a settlement system in accordance with Article 4 of the Belgian Royal Decree of 26 May 1994 on the collection and refund of withholding tax (as amended or replaced from time to time), and "**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 11 (*Notices*).

7. **Prescription**

The Notes and Coupons will become void unless presented for payment 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 6 (*Taxation*)) therefor.

8. **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 the Early Redemption Amount, as of the date on which said notice of acceleration is received by the Agent, unless prior to such date the Issuer, 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 or interest on any of the Notes 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 for a period of 90 days after the date on which written notice of such failure, requiring the Issuer 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 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 the Issuer (including its obligations under the Notes); or
- (iv) the Issuer shall be unable to pay its debts or becomes insolvent or bankrupt or applies for "gerechtelijk akkoord" or "faillissement", or any similar procedure shall be initiated in respect of the Issuer unless it is being contested in good faith by the Issuer; 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 unless it is removed, discharged or paid out within 60 days or is being contested in good faith by the Issuer.

9. **Replacement of Notes, and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to all applicable laws and stock exchange requirements, 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 or Coupons must be surrendered before replacements will be issued.

10. **Agent and Paying Agents**

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer is 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 exchange, 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; and
- (ii) there will at all times be an Agent; and
- (iii) there will at all times be a domiciliary agent in Belgium.

11. **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 (expected to be the Financial Times) or (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, published on the website of the Luxembourg Stock Exchange (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 on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication in all required newspapers.

In addition, so long as any Global Note(s) representing the Note(s) is or are held on behalf of Euroclear and Clearstream, Luxembourg, the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of Notes. 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 the Permanent Global Note, such notice may be given by any holder of a Note to the Agent through NBB, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and NBB, Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

12. **Meetings of Noteholders and Modification**

(a) *Meetings of Noteholders*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Agency Agreement, in accordance with and subject to the rules of the Belgian Company Code (the "**Code**").

All meetings of Noteholders will be held in accordance with the provisions of Article 568 sq. of the Code with respect to bondholders meetings; provided however that the Issuer shall promptly convene a meeting of Noteholders upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. Subject to the quorum and majority requirements set out in Article 574 of the Code, and if required thereunder subject to validation by the court of appeal of Brussels, the meeting of Noteholders shall be entitled to exercise the powers set out in Article 568 of the Code and to modify or waive any provision of these Conditions, provided however that the modification of certain provisions of the Notes and 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, the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons) may only be sanctioned by a resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Resolutions duly passed in accordance with these provisions shall be binding on all Noteholders and Couponholders, whether or not they are present at the meeting and whether or not they vote in favour of such a resolution.

Convening notices for meetings of Noteholders shall be made in accordance with Article 570 of the Code, which currently requires an announcement to be published not less than fifteen days prior to the meeting in the Belgian Official Gazette (*Moniteur Belge/Belgisch Staatsblad*) and in a newspaper of national distribution in Belgium. Convening notices shall also be made in accordance with Condition 11 (*Notices*).

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Agency Agreement will take effect as if it were a resolution of a meeting of the Noteholders. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*

The Agent and the Issuer may, without the consent of the Noteholders or Couponholders agree to any modification of the Agency Agreement (other than as mentioned above) which is not prejudicial to the interests of Noteholders and to any modification of the Notes, the Coupons the Agency Agreement or the Deed of Covenant which is of a formal, minor or technical nature or is to made correct a manifest error or to comply with mandatory provisions of law.

Any such authorisation, waiver or modification shall be binding on Noteholders and Couponholders and shall be notified to the Noteholders in accordance with Condition 11 (*Notices*) as soon as practicable thereafter.

13. **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.

14. **The 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 the Notes.

15. **Governing Law and Submission to Jurisdiction**

The Agency Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law, except for Condition 12(a) (*Meetings of Noteholders*) which shall be governed by, and construed in accordance with, Belgian law.

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 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 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 KBC Bank NV at its London branch at 111 Old Broad Street, 5th Floor, London EC2N 1BR as its agent for service of process, and undertakes that, in the event of KBC Bank NV 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. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Permanent Global Note which will be deposited on or around the Issue Date with the NBB as operator of the X/N System.

Beneficial interests in the Permanent Global Note will be shown on, and transfers thereof will be effected only through, records maintained in a book-entry form by the X/N System, Euroclear and/or Clearstream, Luxembourg.

The NBB settlement system maintains securities accounts in the name of authorised participants only. Noteholders therefore will normally not hold their Notes directly at NBB, but will hold them on a securities account with a financial institution which is a participant in the system, or which holds them through another financial institution that is itself a participant. The Belgian royal decree No. 62 of November 10, 1967 and the Belgian law of 2 January, 1991 regulate this system, and in particular contain provisions aiming at protecting the Bondholders in the event of the insolvency of a financial institution through which Notes are held in the system. The Notes are then to be returned to the respective Noteholders, are not part of the insolvent financial institution's assets, and are not available to the creditors of that financial institution.

Most credit institutions established in Belgium are participants in the NBB system. Euroclear and Clearstream, Luxembourg are also authorised participants. Investors can thus hold their Notes on securities accounts in Euroclear and Clearstream, Luxembourg in the same way as they would for any other types of securities.

More information on the NBB settlement system is available at www.nbbsss.be.

The clearing and settlement systems of NBB, Euroclear and Clearstream, Luxembourg function under the responsibility of their respective operators. The Issuer and the Agents shall have no responsibility in this respect.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of EUR 1,000 each at the request of the bearer of the Permanent Global Note if (a) the X/N System, Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs *provided that* the delivery of Definitive Notes may at the relevant time be carried out without infringement of any applicable law, and in particular the law of 14 December 2005 on the suppression of bearer securities prevent the delivery of Definitive Notes.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

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

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 15 May 2008 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of the X/N System and/or Euroclear

and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

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

Whilst the Permanent Global Note is held through the X/N System, all payments in respect thereof shall be made through such system. Otherwise, all payments in respect of the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Permanent Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

In addition to Condition 11 (*Notices*), while some of the Notes are represented by the Permanent Global Note and the Permanent Global Note is deposited with or on behalf of the NBB and cleared through the X/N System, Euroclear and Clearstream, Luxembourg, notices to Noteholders holding the Notes through Euroclear or Clearstream, Luxembourg may also be given by delivery of the relevant notice to or on behalf of Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 11 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to be an amount in Euros equal to the product of the aggregate principal amount of the Notes to be issued and the Issue Price (before the deduction of expenses incurred in connection with the issue of the Notes), will be used by the Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUER

1. Creation and Introduction

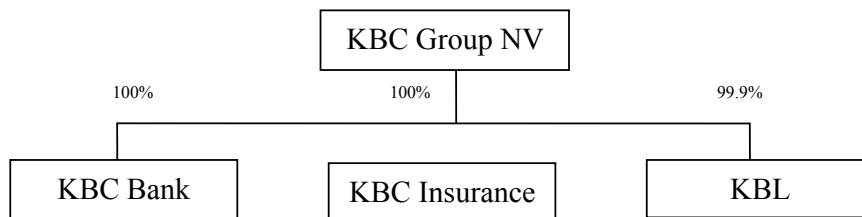
KBC Group NV (the "**Issuer**") was incorporated in Belgium on 9 February 1935 for an indefinite duration in the form of a public limited liability company as Kredietbank NV. It is registered with the Crossroadsbank for Enterprises with registration number BE-0403.227.515. On 3 June 1998 Kredietbank NV contributed its totality to KBC Bank NV.¹ At the same time Kredietbank NV changed its name into KB ABB Cera Bank and Insurance Holding Company NV. On 27 April 2000 KB ABB Cera Bank and Insurance Holding Company NV changed its name into KBC Bank and Insurance Holding Company NV. On 2 March 2005 KBC Bank and Insurance Holding Company NV changed its name into KBC Group NV.

The Issuer operates under Belgian laws, and has its registered office at 2 Havenlaan, BE-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154.

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

The Issuer and its consolidated subsidiaries are referred to herein as the "**KBC Group**".

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



The Issuer's shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange. As at 31 December 2007, there were 355,115,321 fully paid-up ordinary shares of the Issuer in circulation, as well as 2,589,347 Mandatorily Convertible Bonds (MCBs) 1998-2008 (which will

¹ KBC Bank was initially formed on 3 June 1998 through the merger of the banking operations of the Almanij1-Kredietbank group and CERA Bank group. The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank.

be converted on or before 30 November 2008 into the Issuer's shares according to a ratio of one ordinary share for one MCB). Information on the existing share buyback programmes of the group is provided in its annual and quarterly reports, which are available on www.kbc.com.

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



2. Short presentation of the KBC Group

Area of Activity

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

Business Unit Breakdown

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

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

Central & Eastern Europe and Russia ("CEER") Business Unit: This business unit groups all banking and insurance activities pursued in Central and Eastern Europe and Russia.

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

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

Shared Services and Operations Business Unit: This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group, such as Asset Management, ICT, Payments,

Trade Finance, Leasing and Consumer Finance. Most of the expenses and income of this business unit are passed on to the other business units and consequently reflected in their results.

SHAREHOLDERS (as at 31 December 2007)	(% OF TOTAL NUMBER OF ORDINARY SHARES)
KBC Ancora	23.2%
Cera	7.1%
MRBB	12.0%
Other core shareholders	12.0%
KBC Group companies	4.3%
Free float	41.4%
Total	100.0%

NETWORK (as at 31 December 2007)	
Bank branches in Belgium	923
Bank branches in Central and Eastern Europe and Russia (excluding the minority participation in NLB)	1,223

LONG-TERM RATINGS ISSUER AND KBC BANK, END OF FEBRUARY 2008	
KBC GROUP	
Fitch	AA-
Moody's	Aa3
Standard and Poor's	A+
KBC BANK	
Fitch	AA-
Moody's	Aa2
Standard and Poor's	AA-
Fitch and S&P's ratings on stable outlook; Moody's ratings on negative outlook.	

List of main subsidiaries and associated companies of the Issuer, (as at 31 December 2007)

Company	Business unit (*)	Registered office	Ownership percentage at KBC Group level	Activity
BANKING				
FULLY CONSOLIDATED SUBSIDIARIES				
Absolut Bank	CEER	Moscow - RU	95.00	Credit institution
Antwerpse Diamantbank NV	MB	Antwerp - BE	100.00	Credit institution
CBC Banque SA	B	Brussels - BE	100.00	Credit institution
CENTEA NV	B	Antwerp - BE	99.56	Credit institution
ÇSOB a.s.	CEER	Prague - CZ	100.00	Credit institution
Economic and Investment Bank AD	CEER	Sofia - BG	75.59	Credit institution
Fin-Force NV	GR	Brussels - BE	90.00	Processing financial transactions
IIB Bank Plc	MB	Dublin - IE	100.00	Credit institution
KBC Asset Management	B	Brussels - BE	100.00	Asset Management

<u>Company</u>	<u>Business unit (*)</u>	<u>Registered office</u>	<u>Ownership percentage at KBC Group level</u>	<u>Activity</u>
NV				
KBC Bank NV	B/MB/CEER/GR	Brussels - BE	100.00	Credit institution
KBC Bank Deutschland AG	MB	Bremen - DE	99.76	Credit institution
KBC Bank Funding LLC & Trust (group)	MB	New York - US	100.00	Issuance of trust preferred securities
KBC Bank Nederland NV	MB	Rotterdam - NL	100.00	Credit institution
KBC Clearing NV	MB	Amsterdam - NL	100.00	Clearing
KBC Commercial Finance NV (ex-International Factors NV)	MB	Brussels - BE	100.00	Factoring
KBC Credit Investments NV	MB	Brussels - BE	100.00	Investments in credit-linked securities
KBC Finance Ireland	MB	Dublin - IE	100.00	Lending
KBC Financial Products (group)	MB	Various locations	100.00	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	MB	Rotterdam - NL	100.00	Issuance of bonds
KBC Lease (group)	MB	Various locations	100.00	Leasing
KBC Peel Hunt Ltd.	MB	London - GB	99.99	Stock exchange broker / corporate finance
KBC Private Equity NV	MB	Brussels - BE	100.00	Private equity
KBC Real Estate NV	MB	Zaventem - BE	100.00	Real estate
KBC Securities NV	MB	Brussels - BE	100.00	Stock exchange broker / corporate finance
K&H Bank Rt.	CEER	Budapest - HU	100.00	Credit institution
Kredyt Bank SA	CEER	Warsaw - PL	80.00	Credit institution
Associated companies				
Nova Ljubljanska banka d.d. (group)	CEER	Ljubljana - SI	34.00	Credit institution
INSURANCE				
Fully consolidated subsidiaries				
A Banka A.D.	CEER	Belgrade - RS	100.00	Credit institution
ADD NV	B	Heverlee - BE	100.00	Insurance company
Assurisk SA	MB	Luxembourg - LU	100.00	Insurance company
CSOB Pojist'ovna a.s.(Czech Republic)	CEER	Pardubice - CZ	100.00	Insurance company
CSOB Poist'ovna a.s.(Slovak Republic)	CEER	Bratislava - SK	100.00	Insurance company
DZI Insurance	CEER	Sofia - BG	89.37	Insurance company
Fidea NV	B	Antwerp - BE	100.00	Insurance company
K&H Insurance	CEER	Budapest - HU	100.00	Insurance company
KBC Verzekeringen NV	B	Leuven - BE	100.00	Insurance company
Secura NV	MB	Brussels - BE	95.04	Insurance company
VITIS Life Luxembourg	EPB	Luxembourg - LU	99.99	Insurance company

<u>Company</u>	<u>Business unit (*)</u>	<u>Registered office</u>	<u>Ownership percentage at KBC Group level</u>	<u>Activity</u>
SA				
VTB-VAB NV	B	Zwijndrecht - BE	64.80	Automobile assistance
TUIR WARTA SA	CEER	Warsaw - PL	100.00	Insurance company
Proportionally consolidated subsidiaries				
NLB Vita d.d.	CEER	Ljubljana - SI	50.00	Insurance company
EUROPEAN PRIVATE BANKING				
Fully consolidated subsidiaries				
Brown, Shipley & Co Ltd.	EPB	London - GB	99.91	Credit institution
KBL France sa	EPB	Paris - FR	99.91	Credit institution
KBL European Private Bankers SA	EPB	Luxembourg - LU	99.91	Credit institution
Kredietbank (Suisse) SA, Genève	EPB	Geneva - CH	99.90	Credit institution
Merck Finck & Co.	EPB	Munich - DE	99.91	Credit institution
Puilaetco Private Bankers SA	EPB	Brussels - BE	99.91	Credit institution
Theodoor Bankiers NV	Gilissen EPB	Amsterdam - NL	99.91	Credit institution
HOLDING-COMPANY ACTIVITIES				
Fully consolidated subsidiaries				
KBC Global Services NV (ex-KBC Exploitatie)	GR	Brussels - BE	100.00	Cost-sharing structure
KBC Group NV	GR	Brussels - BE	100.00	Holding company

(*) B=Belgium business unit, MB= Merchant Banking business unit, CEER = Central & Eastern Europe and Russia business unit, EPB = European Private Banking business unit, GR = Group Centre

3. Selected Financial Information

Balance Sheet and assets under management, end of period (in millions of EUR)	31 December 2006	31 December 2007
Total assets	325 400	355 597
Loans and advances to customers	127 152	147 051
Securities	111 959	105 023
Deposits from customers and debt securities	179 448	192 135
Gross technical provisions and liabilities under investment contracts, insurance	25 121	26 833
Parent shareholders' equity	17 219	17 348
Risk-weighted assets, banking (Basel I)	128 968	154 054
Assets under management	208 560	231 390
Income statement (in millions of EUR)		
Total income	12 556	13 271
Operating expenses	-4 925	-5 219
Impairment	- 175	-267
Net profit, group share	3 430	3 281
Basic earnings per share (in EUR)	9.68	9.46
Diluted earnings per share (in EUR)	9.59	9.42

Underlying results (in millions of EUR)

Total income	11 644	12 745
Operating expenses	-4 976	-5 154
Impairment	-175	-267
Net profit, group share	2 548	2 938
Basic earnings per share (in EUR)	7.19	8.47
Diluted earnings per share (in EUR)	7.13	8.43
Net profit per business unit		
Belgium	1 104	1 321
Central & Eastern Europe and Russia (CEER)	426	618
Merchant Banking	871	843
European Private Banking	181	194
Group Centre	-33	-38

KBC share

Number of shares outstanding, end of period ('000)	363 217	355 115
Equity per share, end of period (in EUR)	49.2	50.7
Highest share price for the financial year (in EUR)	93.3	106.2
Lowest share price for the financial year (in EUR)	76.2	85.9
Average share price for the financial year (in EUR)	85.9	95.8
Share price at year-end (in EUR)	92.9	96.2
Gross dividend (in EUR)	3.31	3.78
Equity market capitalisation, end of period (in billions of EUR)	33.7	34.2

Ratios

Return on equity	24%	21%
Return on equity (based on underlying profit)	18%	18%
Cost/income ratio, banking	53%	56%
Cost/income ratio, banking (based on underlying profit)	58%	58%
Combined ratio, non-life insurance	96%	95^
Loan loss ratio, banking	0.13%	0.13%
Tier-1 ratio, banking (Basel I)	9%	96%
Solvency ratio, insurance	374%	265%

4. Network and market position

Note: acquisitions since 2007 (in Bulgaria, Russia, Serbia and Romania) are described further on.

Bank network in Belgium and Central & Eastern Europe and Russia, as at 31 December 2007¹		Market share	Customers (in millions)	Branches
Belgium	KBC Bank	20%	3.4	923
Czech Republic	ČSOB	21%	3.0	251
Slovakia	ČSOB	8%	0.2	114
Hungary	K&H Bank	10%	0.9	223
Poland	Kredyt Bank	4%	1.0	393
Bulgaria	Economic and Investment Bank	3%	0.2	126
Romania	Romstal Leasing	-	-	-
Serbia	A Banka	0.7%	0.1	45
Russia	Absolut Bank	0.5%	0.2	71

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

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

Insurance network in Belgium and Central & Eastern Europe, 31 December 2007¹		Life Market share	Non-Life Market share	Customers (in millions)
Belgium	KBC Insurance	11%	9%	1.4
Czech Republic	ČSOB Pojist'ovna	10%	5%	0.8
Slovakia	ČSOB Poist'ovna	5%	3%	0.2
Hungary	K&H Insurance	5%	4%	0.5
Poland	WARTA	2%	10%	2.0
Bulgaria	DZI Insurance	18%	15%	0.8

1 Figures for market shares and customers are own KBC Bank estimates.
Excluding the stake in NLB Vita in Slovenia.

Share of the investment fund market in Belgium and Central & Eastern Europe, as at 31 December 2007¹

Belgium	35%
Czech Republic	28%
Slovakia	12%
Hungary	17%
Poland	4%

1 Figures are own KBC Bank estimates.
Excluding Slovenia.

Network in Belgium

At the end of 2007, KBC Bank had a network of 923 branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The branch network is broken down into 865 retail branches, 33 corporate branches (including the social profit branches) and 25 private banking branches.

The Belgian retail market is also catered for by 712 independent agents working under the umbrella of the retail savings bank, Centea NV, a subsidiary of KBC Bank.

Besides traditional bank products, the KBC Group also markets the insurance products of KBC Insurance. To sell these products, the KBC Group has – besides its bank branches that sell standard insurance products – an extensive network of tied insurance agents (552 agencies at year-end 2007), who handle claims settlement as well. In addition, the group offers the insurance products of subsidiary Fidea through independent brokers and Centea agents. As regards the electronic networks, more information is given below.

The KBC Group serves some 3.4 million bank customers and around 1.4 million insurance customers in Belgium through all these networks.

The KBC Group's expansion has given private banking customers the choice of being served by KBC Bank and CBC Banque private banking branches or Puilaetco Dewaay Private Bankers, a subsidiary of KBL EPB.

As at 31 December 2007, KBC Bank had (based on its own estimates) a 18 per cent. share of the Belgian deposit market, a 22 per cent. share of the lending market, a 11 per cent. share of the Life insurance market, and a 9 per cent. share of the Non-Life insurance market. Over the past few years, the KBC Group has built up a strong position in investment funds, and leads the Belgian market with an estimated share of 35 per cent.

Network in Central and Eastern Europe and Russia

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

At the end of 2007, the KBC Group's Central and Eastern European banking network (including Russia) comprised 1,223 branches belonging to its subsidiaries ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary, Kredyt Bank in Poland, Economic and Investment Bank in Bulgaria, A Banka in Serbia and Absolut Bank in Russia. This number does not take account of KBC's presence in Slovenia and the other republics of the former Yugoslavia through its minority interest in Nova Ljubljanska banka (a total of some 500 branches). Besides selling products through these bank branches, the group also uses other channels, such as the more than 3,000 Czech post offices, the points of sale of Kredyt Bank's Polish consumer finance subsidiary, and the various electronic channels, such as the Internet and phone-banking.

The KBC Group has built up a second home market in this region not just in banking, but in insurance as well. At year-end 2007, this network included ČSOB Pojišťovna in the Czech Republic, ČSOB Poist'ovňa in Slovakia, WARTA in Poland, NLB Vita in Slovenia (a joint venture with Nova Ljubljanska banka), K&H Insurance in Hungary and DZI Insurance in Bulgaria. Together, these companies have a network of over 14,000 tied insurance agents.

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

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

Thanks to this extensive banking and insurance network, the KBC Group has captured a prominent market position in selected countries and serves over 5.5 million banking customers (not counting NLB) and over 4 million insurance customers in the region. The KBC Group expects that this region will not only achieve significantly higher economic growth than Western Europe, but also that it will continue to catch up as regards the penetration of bank and insurance products. The KBC Group consequently remains convinced that its presence in this region gives it a strong motor to drive growth in the future.

Network in the rest of the world

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

Following the rationalisation of the past few years, no substantial changes were made to this network in 2007 (except for the opening of a branch in Madrid). If deemed necessary, KBC Bank may open new branches in future, in order to improve market coverage.

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

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

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

Specialised activities

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

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

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

5. **Main acquisitions/disinvestments in 2007 and from January to April 2008**

2007

- March 2007: acquisition of a 99.3 per cent. stake in the Romanian leasing company Romstal Leasing;
- April 2007: acquisition of a 100 per cent. stake of the Romanian broker Swiss Capital; acquisition of a 100 per cent. stake in the Hungarian online retailbroker Equitas; sale of the Italian private banker Banca KBL Fumagalli Soldan;
- June 2007: take-over of the 50 per cent. stake of ING Belgium in International Factors (now called KBC Commercial Finance); acquisition of 100 per cent. of A Banka in Serbia by KBC Insurance;
- July 2007: acquisition of a 95 per cent. stake in the Russian Absolut Bank; acquisition of the Serbian equity broker Hipobroker; finalisation of the squeeze-out of the remaining shares of CSOB in the Czech Republic;
- August 2007: acquisition of 85 per cent. of DZI Insurance in Bulgaria; acquisition of a 51 per cent. stake in Baltic Investment Company, a corporate finance specialist in Latvia.
- September 2007: acquisition of a 60 per cent. stake in the Serbian corporate finance specialist Bastion;
- October 2007: acquisition of the Serbian equity broker Senzal;
- December 2007: acquisition of a 75 per cent. stake in Economic and Investment Bank in Bulgaria.

January to April 2008

- March 2008: agreement to acquire full ownership of Istrobanka, subject to regulatory approval by the Central Bank of Slovakia and the Anti-Trust Commission
- April 2008: acquisition of French asset manager Richelieu Finance.

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

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

6. E-banking

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

As at 31 December 2007, the branch network in Belgium was supplemented by 1,277 automated "KBC Matic" teller machines that allow customers to make fund transfers and receive account statements. Customers who want to do their banking business directly by phone are offered "KBC-Phone" or "CBC-Phone" facilities. On the KBC web site visitors can find a variety of information and can carry out loan, investment and insurance-related simulations. PC and Internet banking can be done via "KBC-Online", "CBC Online" and "Centea Online".

These alternative channels have proved popular. For example, in Belgium at the end of 2007, there were roughly 580,000 customers actively using the online systems, a 14 per cent. increase within one year.

E-banking indicators - Belgium	31 December 2006	31 December 2007
Number of KBC- and CBC-Matic ATMs	1,240	1,277
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	3.2 million	3.9 million
Active subscribers to KBC's Internet and PC banking facilities	510,000	580,000

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

In Central and Eastern Europe and Russia too, the group supplements its networks by electronic channels; in total, KBC has, via its subsidiaries in the region, some 1,700 ATMs and some 700,000 active users of its various internet and PC-banking facilities.

7. Private banking strategy in Belgium

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

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

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

8. Competition

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

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

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

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

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

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

9. **Risk Management**

Risk management in the KBC Group is effected group-wide. A description of risk management in the KBC Group is available in the 2007 Annual Report of KBC Group. Below, only a selection of this information is provided – for a full picture, please refer to the annual report of KBC Group).

Risk governance

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

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

- The technical insurance risks include tariffication and acceptance risk, the risk that reserves will prove inadequate, the risk of serious accidents and catastrophes, and the risk of insurance fraud.

Credit risk management, banking activities

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

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

Loan portfolio	31 December 2006	31 December 2007
Total loan portfolio (in billions of EUR)		
Amount granted	185.7	208.2
Amount outstanding	138.6	163.5
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	29%	28%
CEER	18%	21%
Merchant banking	51%	49%
European Private Banking	2%	2%
Total	<u>100%</u>	<u>100%</u>
Loan portfolio breakdown by sector (selected sectors as a % of the portfolio of credit granted)		
Real estate	6%	7%
Electricity	3%	2%
Automobile industry	3%	3%
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Specific impairment	2,001	2,048
Portfolio-based impairment	222	186
Loan loss ratio (net changes in individual and portfolio-based impairment for credit risks / average outstanding loan portfolio)	0.13%	0.13%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2,221	2,386
Specific impairment for non-performing loans	1,541	1,505
Non-performing ratio (amount outstanding of NP loans / total outstanding loan portfolio)	1.6%	1.5%
Cover ratio of NP loans by specific impairment for NP loans	69%	63%
Cover ratio of NP loans by specific and portfolio-based impairment for performing and NP loans	100%	94%

Ratio definitions are provided in the Annual Report

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

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

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk (note that KBL is not included in the 2006 figures, except for the government bond totals):

- short-term commercial exposure: trade-related commitments, where the term does not surpass 2 years and the counterparty is a bank (such as confirmed or guaranteed documentary credits and documented pre-export financing and post-import financing). As at 31 December 2007, this exposure (100 per cent. weighted) amounted to 1.8 billion euros (31 December 2006: 1.3 billion euros);
- counterparty risk of inter-professional transactions: refers to placements (money market transactions) and the pre-settlement risk of derivatives (forex products, swaps and options). As at 31 December 2007, this exposure (weighted as positive current replacement value, plus add-on – more explanation in the annual report of KBC Group) came to 34.5 billion euros (31 December 2006: 22.3 billion euros);
- trading book securities - issuer risk: refers to the potential loss on default by the issuer of the trading securities. As at 31 December 2007, the trading issuer risk came to approximately 3.8 billion euros (31 December 2006: 2.3 billion euros);
- government bonds in the investment portfolio: the exposure related to government bonds amounted to 34.8 billion euros as at 31 December 2007 (37 billion euros as at 31 December 2006) and was accounted for mainly by bonds on EU states (particularly Belgium).

KBC Bank's methodology for calculating country risk is explained in the 2007 Annual Report of KBC Group. The table below shows the result of this calculation for 31 December 2007. This calculation encompasses more than the loan portfolio, as it also includes (the country risk involved in) inter-professional transactions and short-term commercial transactions. However, transactions in local currency and the whole euro zone are excluded from the calculation, as they do not entail any transfer risk.

Country risk at 31 December 2007 (excluding local-currency transactions)* (in millions of EUR)	Total	Western Europe (excl euro zone)	Central Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International institutions
By transaction type										
IFC 'B' loans	41	2	1	26	0	0	5	1	0	6
Performance risks	1,063	84	507	31	11	54	223	153	2	0
Other loans	18,819	5,105	7,751	2,271	2,581	522	287	139	135	27
Bonds and shares	10,134	4,384	2,372	582	1,881	119	463	5	115	216
Interprofessional transactions (weighted)	5,955	3,151	1,014	997	336	141	294	5	12	8
Medium- and long-term export finance	164	4	39	6	0	5	8	102	0	0
Short-term commercial transactions	1,483	42	283	415	11	529	108	95	1	0
Total	37,660	12,772	11,966	4,328	4,820	1,370	1,388	496	266	255
Breakdown by remaining tenor										
Not more than 1 year	13,022	3,914	3,970	956	956	690	542	117	62	35
More than 1 year	24,638	8,857	7,997	3,864	3,864	680	846	378	204	220
Total	37,660	12,772	11,966	4,820	1,370	1,370	1,388	492	266	255

* Excluding Economic and Investment Bank (Bulgaria).

In relation to so-called "US sub-prime lending", KBC Group has no direct subprime lending exposure. Its indirect subprime exposure consists of (the sub prime part of) investments in CDOs which carry some ABS underlying (as at end 2007: 6.9 billion euros of which circa 13 per cent. sub prime underlying), as well as the ABS of the former conduit Atomium (now on KBC Group's books; 2.0 billion euros, 33 per cent. sub prime).

The credit risk related to this exposure has been limited due to the high credit ratings of the tranches held, the high attachment points, and the fact that the CDOs are actively managed by the KBC Group. This was confirmed by the outcome of internal stress tests, which revealed that the expected amount of credit downgrading to 'default' was limited (details in KBC Group's Quarterly Report 4Q 2007, available on www.kbc.com). Note that a stress test is not an actual loss estimate.

Asset/liability management

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

BPV of the ALM-book of KBC group banks* (in millions of EUR)	
Average, 1Q 2006	76
Average, 2Q 2006	87
Average, 3Q 2006	88
Average, 4Q 2006	74
31 December 2006	67
Maximum in 2006	92
Minimum in 2006	66
Average, 1Q 2007	70
Average, 2Q 2007	54
Average, 3Q 2007	44
Average, 4Q 2007	46
31 December 2007	48
Maximum in 2007	74
Minimum in 2007	42

*Excluding Absolut Bank, Economic and Investment Bank and A Banka.

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

ALM risk: investment portfolio, insurance (carrying value, in millions of EUR)	31 December 2006	31 December 2007
Bonds and other fixed-income securities	13,145	14,643
Shares and other variable-yield securities	4,529	4,328
Other securities	8	20
Loans and advances to customers	148	156
Loans and advances to banks	1,002	1,775
Property and equipment, and investment property	228	285
Liabilities under investment contracts, unit-linked	9,367	9,099
Other	131	112
Total investment portfolio, KBC Insurance	28,558	30,417

Market risk management

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

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

The table below shows the Value-at-Risk (VAR; 99 per cent. confidence interval, 1-day holding period) for KBC Bank's dealing rooms on the money and capital markets, based on historical simulation. KBC Securities is not included in the table (its VAR at end 2007 amounted to 0.5 million euros).

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

* Including KBL.

10. Staff

As at 31 December 2007, KBC Group had, on a consolidated basis, about 57,000 employees (in full-time equivalents ("FTE")), the majority of which were located in Belgium (especially KBC Bank NV) and Central and Eastern Europe and Russia (especially CSOB in the Czech and Slovak republics, Kredyt Bank and Warta in Poland, Economic and Investment Bank and DZI Insurance in Bulgaria, K&H Bank in Hungary and Absolut Bank in Russia).

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

11. **Banking supervision and regulation**

Banking activities

Introduction

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

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

Supervision and regulation in Belgium

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications ("**Banking Act**"). The Banking Act, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (hereafter: "**Capital Requirements Directive**") and by EC Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (hereafter: "**Capital Adequacy Directive**"). It sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the BFIC. 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 BFIC before they may commence operations. In order to obtain a license and maintain it, each credit institution must satisfy numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 5 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 BFIC therefore requires the disclosure of the identity and participation of any shareholder with a 5 per cent. or greater capital or voting interest. If the BFIC 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 BFIC is required each time a person intends to acquire shares in a credit institution, resulting in the direct or indirect ownership of 5 per cent. of the capital or voting rights or a multiple thereof. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the BFIC thereof one month in advance. The Belgian credit institution itself is obliged to notify the BFIC of any such transfer when it becomes aware thereof.

The Banking Act requires credit institutions to provide detailed periodic financial information to the BFIC and to the National Bank of Belgium ("**NBB**"). The BFIC also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. It also sets the standards regarding the solvability, liquidity, risk concentration and other limitations applicable to credit institutions.

Pursuant to the Banking Act, the BFIC 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 BFIC supervises, among other

things, the management structure, the administrative organization, the accounting and the internal control mechanisms of a credit institution. The BFIC may supplement these communications and controls by on-site inspections. The BFIC also exercises its comprehensive supervision of credit institutions through Statutory Auditors who co-operate with the BFIC in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the BFIC.

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

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

Bank governance

Belgian law and regulatory practices make a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general policy, which is entrusted to the Board of Directors. In a circular, the BFIC recommends the implementation of this distinction. Besides, this circular contains also other recommendations to assure the autonomy of the banking function and the proper governance of the credit institution.

KBC Bank makes a Governance Memorandum. This Memorandum sums up the main characteristics of the policy-structure. The policy of the credit institution must meet the principles set out in the circular. The principal shareholders underwrite this Memorandum.

Pursuant to the Banking Act, the members of the Executive Committee need to have the required professional reliability and appropriate experience, 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 BFIC's Regulation on own funds of 17 October 2006 as approved by Ministerial Decree of 27 December 2006 (hereafter: "**the 2006 Decree on Own Funds**"), transposing the Basel II related provisions of the Capital Requirements Directive and the Capital Adequacy Directive. The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements, and is further limited by the general provisions of Belgian company law.

The 2006 Decree on Own Funds requires that the solvency of Belgian credit institutions be measured by a ratio that serves as the basis for the calculation of the minimum required capital. This capital requirement is principally determined by the degree of credit risk that is inherent in each item of the balance sheet and in each off-balance-sheet item. Each bank subject to the 2006 Decree on Own Funds must maintain a capital adequacy ratio (the "**CAD ratio**") of total capital (Tier I and Tier II) to risk-weighted assets, of no less than 8 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 and the total amount of concentrated risks (single counterparty exposures larger than 10 per cent. of total capital) to 800 per cent. of total capital. Belgian regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

Equity investments

Belgian credit institutions may make equity investments in commercial and industrial companies. However, such investments (of 10 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 EU Directive 91/308 of 10 June 1991 on the prevention of the use of the financial system for the purpose of money-laundering (amended by EU Directive 97/2001 of 4 December 2001) in an Act of 11 January 1993, as amended (amongst others, by the Act of 12 January 2004). This legislation constitutes a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms, and employee training requirements on various categories of institutions and professionals, including credit and financial institutions. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. The unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The BFIC has issued guidance to credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraph 1, 2 3 and 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of five years and/or a penalty of a minimum of 26 euros and a maximum of 100,000 euros (to be increased with the additional penalty", or – in other words – to be multiplied by 5).

Consolidated supervision

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

Insurance activities

Introduction

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

EU directives have had and will continue to have a significant impact on the regulation of the insurance business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to

promote the realisation of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

Supervision and regulation in Belgium

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

Supervision of insurance companies

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

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

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

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

Insurance governance

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

Money laundering

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

KBC Asset Management

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

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

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

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

KBL European Private Bankers SA

Introduction

KBL European Private Bankers SA ("**KBL**"), a credit institution governed by the laws of Luxembourg, is subject to detailed, comprehensive regulation in Luxembourg, supervised by the Commission de Surveillance du Secteur Financier ("**CSSF**"), an autonomous public agency controlling the banking sector.

Supervision and regulation in Luxembourg

KBL is a fully-licensed credit institution governed by the Luxembourg Act of 5 April 1993 on the Financial Sector, as amended last on 9 November 2007 ("**Financial Sector Act**"). Under the above Act, any institution willing to undertake banking activities in Luxembourg must, prior to

starting its activities, obtain a license from the Ministry of Finance upon investigation of the CSSF. In order to obtain and hold the license, the undertaking must satisfy numerous conditions, including certain minimum paid-up capital requirements.

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

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

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

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

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

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

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

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

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

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

If the CSSF finds that a credit institution is not operating in accordance with the provisions of the Financial Sector Act, that its management policy or its financial position is likely to prevent it

from honouring its commitments or that it does not provide sufficient guarantees for its solvency, liquidity or profitability, or that its management structure, administrative and accounting procedures or internal control systems present serious deficiencies, it will set a deadline by which the situation must be remedied. If the situation has not been remedied by the deadline, the CSSF has the power to appoint a special administrator to replace management, to suspend or prohibit all or part of its activities, to order the disposal of all or part of its shareholdings, and finally, to withdraw the license of the credit institution.

Money-laundering

Under the above Financial Sector Act and under the Act of 12 November 2004, as amended last by the MIFID implementation law dated 13 July 2007, Luxembourg credit institutions are also subject to series of obligations in relation to fighting against money laundering and terrorist financing.

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

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

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

Supervision of the KBC Group

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

12. **Litigation**

This section refers to material litigation to which the KBC Group or any of its companies (or certain individuals in their capacity as current or former employees or officers of the KBC Group or any of its companies) are party. It describes all claims, quantified or not, that could lead to the impairment of the company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for the corporation, members of the board or management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, management does not believe that the liabilities arising from these claims will adversely affect the KBC Group's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

Judicial inquiries and criminal proceedings

An inquiry was instituted in mid-1996 by the Belgian judicial authorities relating to the alleged cooperation by (former) directors, managers or members of staff of KBC Bank and KBL in tax evasion committed by customers of KBC Bank and KBL. The investigation was based on confidential information believed to have been stolen by former KBL employees who had been dismissed in 1994 for embezzlement. This inquiry ended in October 2000 and resulted in eight (former) directors, managers and members of staff of KBC and twenty-seven (former) directors, managers and members of staff of KBL being placed under suspicion.

On 11 January 2008, the Chambers section of the Brussels Court of First Instance (the *Raadkamer*) decided to refer only eleven people previously placed under suspicion in this case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the charges were insufficient or the period of prescription expired. The Prosecutor lodged an appeal to the Chamber's section of the Court of Appeal (*Kamer van Inbeschuldigingstelling*) against three people who were discharged. One former KBL employee lodged an appeal against his committal for trial.

In the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.

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

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

In July 2006, the Issuer was placed under suspicion by an investigating magistrate in Brussels in an alleged case of money laundering. It is an isolated case, where four mortgage loans were granted by KBC Bank over a five-year period to one customer in order to buy and renovate three investment properties and build apartments. The bank had followed its internal procedures to combat money laundering and fraud.

The investigation was terminated and the case was scheduled to take place on 8 April 2008 but will be postponed. It will be held before the Chambers section of the Brussels Court of First Instance (the "**Raadkamer**"), which will decide whether there are sufficient charges against the accused to proceed to trial. A former branch manager who was involved has also been summoned. The Prosecutor demands in his requisition to dismiss charges against the KBC Group.

In June 2007, the KBC Group was placed under suspicion by an investigating magistrate in Brussels in an alleged case of fraud and tax evasion by a customer, who is active in the real estate sector. This matter concerns the financing by KBC Bank of an equity transaction of a real estate company.

The KBC Group was granted access to the relevant judicial dossier and may ask for additional investigations to be carried out. The KBC Group is convinced that both it and its employees followed the Bank's internal procedures to combat money laundering and fraud and complied with legal and regulatory requirements in this case.

KBL France acted as co-agent for the listing on the "*marché libre*" of MNC, a start up company specialized in the conception and manufacturing of a multimedia desk top. The total amount of funds subscribed for this listing was EUR 15 million. The Bank signed the placing memorandum which was itself approved by COB ("**Commission des opérations de Bourse**") with a strong warning for potential investors. In January 2003, the Montpellier Court started a prosecution file against Marc Andrieux, the manager and main shareholder of MNC for fraud. Mr. Andrieux is accused of not having disclosed the true information regarding his company and in particular the exact situation of confirmed orders. On 20 January 2006, EFI (the main agent) and KBL France

were notified by the *Juge Courazier* of their "*mise en examen*" being accused of complicity of fraud in the listing of the company. The examining magistrate has decided on 23 June 2006 that his investigation was completed. Nevertheless, KBL France has asked for additional investigations in July, which was rejected by the Magistrate on 30 August 2006. On 29 March 2007 the court of appeal rejected the appeal of KBL France regarding this refusal. The court decided that no new investigation was necessary to recognize that Mr. Andrieux concealed considerable information about the confirmed orders and that KBL France did not possess this information.

On 13 September 2007 the Prosecutor rendered a non suit (*réquisitoire définitive de non-lieu*) in favour of KBL France, considering that it did not collude in the fraud committed by Mr. Andrieux as intention of fraud was not established. The final decision of the investigating magistrate (*ordonnance de règlement*) is now expected. Only penal proceedings are ongoing.

Other litigation

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

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

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

Nomura recently withdrew the proceedings by which it challenged the clearance given by the European Commission in 2004 regarding the validity of the state aid provided by the Czech government to IPB (and consequently to ČSOB) before the European Court of First Instance.

In February, the CNB requested that ČSOB set aside provisions against the 'realistic possibility' that ČSOB might lose several disputes in IPB-related claims. ČSOB responded by saying that these issues are fully covered by the State guarantees and that creating provisions would be redundant and in contradiction with international accounting standards.

On 13 June 2007, ČSOB has filed a Request for Arbitration against the Czech Republic for CZK 7 billion (approximately EUR 62.3 million) plus interest as a result of the failure of the Czech Republic to reimburse ČSOB in connection with the J. Ring case. Article 2.5 of the Agreement and State Guarantee provides that, in the event ČSOB has to pay back to the CKA (a state owned financial institution facilitating the restructuring of the Czech economy by purchasing bad loans)

the consideration for any item of the IPB enterprise returned by the CKA to ČSOB, the Czech Republic has to reimburse ČSOB for the full amount in order to ensure a zero net asset value. As the Czech Republic fails to pay the amount of the consideration in the J. Ring case to ČSOB, although the J.-Ring items in question have been transferred by CKA to IPB on the basis of an arbitral award, ČSOB has had to start the aforementioned arbitration proceedings.

In its answer in which it presented its defence in this arbitration proceeding, the Czech Republic asserted in July 2007 a counter-claim of CZK 26.7 billion (approximately EUR 1 billion). Having reviewed this claim and the underlying arguments together with its external counsel, ČSOB is of the opinion that this claim lacks merit and expects the Arbitral Tribunal not to award any amounts to the Czech Republic on the basis of this counterclaim.

From late 1995 until early 1997, KBC Bank and KB Consult NV ("**KB Consult**") were involved in the sale of "cash companies". A "cash company" is characterized by the fact that a substantial majority of its 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 these cash companies to various purchasers. 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 defer the taxes owed by such companies. KBC Bank and KB Consult immediately took the necessary measures to prevent any further involvement with these parties. The activities of KB Consult were subsequently wound up. KBC Bank and KB Consult were summoned to court in twenty cases. In addition, KB Consult was placed under suspicion by an investigating magistrate in December 2004. A provision of EUR 40.5 million has been constituted to cover the potential impact of any liability with respect to these actions.

In March 2000, Rebeo (currently **Almafin Real Estate Services**) and **Trustimmo**, two former subsidiaries of Almafin (currently a Belgian subsidiary of KBC Group), and four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned before civil court in Brussels by the Belgian State, Finance Department, for the non-payment of approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, Broeckdal Vastgoedmaatschappij had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However, Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002, commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department. The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp.

A provision of EUR 24.2 million has been reserved to cover the potential impact of liability with respect to these actions. In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was adjudged bankrupt by the court of 's-Hertogenbosch in the Netherlands. In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned Deloitte & Touche as the auditors of Broeckdal Vastgoedmaatschappij before the civil court in Brussels in order to indemnify the former against all judgments.

On a proposal by the Polish Organization of Commerce and Distribution ("**POHiD**") in Warsaw, the Office for Competition and Consumer Protection ("**UOKiK**") instituted legal proceedings against the Polish Banks Association, VISA and MasterCard and twenty Polish banks, including Kredyt Bank S.A. ("**Kredyt Bank**"), which issued payment cards in Poland. On 29 December 2006, the President of the UOKiK rendered a decision by which Kredyt Bank and other banks were accused of practices restricting competition and breaching the ban set forth in Article 81 (1) of the Treaty establishing the European Community and in Article 5 (1) point 1, of the

Competition and Consumer Protection Act, by participating in an agreement to fix the amount of interchange fees collected for transactions made using VISA and MasterCard in Poland.

The banks have not been accused of practices restricting competition that consist in the coordination of actions to restrict entrepreneurs who are not parties to such agreements from accessing the market of services for the settlement of payments by consumers to commercial entities for purchases made using payment cards. Kredyt Bank was fined approximately PLZ 12.2 million. HSBC Bank Poland S.A. ("HSBC"), based on the actions of its subsidiary Prosper Bank SA, was fined PLZ 192, 900, and the proceedings against it were dropped and will not be continued. Because Kredyt Bank sold the shares of Prosper Bank SA to HSBC and agreed to pay all fines imposed on HSBC for the obligations of Prosper Bank existing as of the date of the sale, Kredyt Bank will pay the fine imposed on HSBC.

With regard to the decision of the President of the UOKiK that these banks should refrain from anticompetitive practices, an enforcement clause has been added to prevent the banks, from the time they receive the decision, from engaging in anticompetitive practices and requiring them to cease applying agreed interchange fees.

On 12 January 2007, a complaint was filed against the decision of the President of UOKiK to add the sanction clause of immediate enforceability. On 17 January 2007 and 19 January 2007, complaints were filed on behalf of HSBC Bank Polska and Kredyt Bank against the decision of the President of UOKiK, to consider participation in the agreement on fixing the amount of interchange fees by VISA, MasterCard and the banks as anticompetitive practice.

On 18 January 2007, the President of UOKiK rendered a decision by which the banks are jointly obliged to pay POHID PLZ 157,643 as reimbursement for the cost of the proceedings. Kredyt Bank filed a complaint against the decision, considering it to be groundless.

On 20 December 2007 UOKiK transferred the case to the commercial court of Warsaw.

In March 2008, the Issuer, KBC Bank, KBL and Kredietrust have been summoned to appear before the commercial court in Brussels by the British company Beverly Securities Limited. This company refers to business relations that the Issuer / KBL are said to have had with the Republic of South Africa almost 20 years ago, at the time of apartheid and the trade embargo recommended by the UN.

The company is seeking payment of a substantial commission linked to a business transaction totally foreign to the Issuer and KBL. In the past it has already tried to obtain payment of this commission from third parties through legal proceedings launched in South Africa and France, and on each occasion the case was dismissed. It is now attempting to obtain payment on the pretext of having opened an account with KBL more than 17 years ago.

Even if it is true that during this period the Issuer / KBL group maintained business relations with South Africa, this in no way supports the allegations made in the summons. After a thorough examination carried out on the basis of the documents and archives still available, and having obtained two legal opinions from well-known legal practices, particularly in relation to the embargo, the Issuer and KBL are completely reassured of their position and of the fact that they respected all the laws applicable to them at the time.

The Issuer and KBL consider the complaint to be totally unjustified and they intend to claim substantial damages from the plaintiff for a frivolous and vexatious action.

13. **Material contracts**

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

14. Management

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

Name	Business address	Position	Principal offices outside KBC Group NV
Andre Bergen*	KBC Group Havenlaan 2BE 1080 Brussel	President	President of KBC Bank Director of KBC Insurance
Frans Florquin**	KBC Group Havenlaan 2BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Herman Agneessens**	KBC Group Havenlaan 2BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Jan Vanhevel**	KBC Group Havenlaan 2BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Guido Segers**	KBC Group Havenlaan 2BE 1080 Brussel	Member of the ExCo	Managing Director of KBC Bank Director of KBC Insurance
Chris Defrancq*	KBC Group Havenlaan 2BE 1080 Brussel	Managing Director	President of KBC Insurance Managing Director of KBC Bank
Etienne Verwilghen*	KBC Group Havenlaan 2BE 1080 Brussel	Managing Director	President of KBL European Private Bankers SA Managing Director of KBC Bank Director of KBC Insurance
Jan Huygebaert	KBC Group Havenlaan 2BE 1080 Brussel	Chairman of the Board of Directors	Chairman of the Board of Directors of KBC Bank Chairman of the Board of Directors of KBL European Private Bankers SA Vice Chairman of the Board of Directors of KBC Insurance Member of the Executive Committee of the Federation of Enterprises in Belgium (FEB)
Philippe Vlerick	Bic Carpets Walle 113BE 8500 Kortrijk	Vice Chairman of the Board of Directors	CEO and Managing Director of UCO Textiles NV and BIC Carpets NV
Paul Borghgraef	Rozenlaan 24BE 2970 Schilde	Director	Director of various companies
Paul Bostoën	Coupure 10BE 9000 Gent	Director	Managing Director of Christeyns NV and Algimo NV
Jo Cornu	Grouwesteestraat 13BE 9170 Sint-Gillis-Waas	Independent Director	Director of Alcatel NV
Luc Debaillie	Voeders Debaillie NV Kaaistraat 31BE 8800 Roeselare	Director	Chairman and Managing Director of Voeders Debaillie NV
Noël Devisch	MRBB cvba Diestsevest 40BE 3000 Leuven	Director	Chairman of MRBB cvba Director of KBC Insurance

Name	Business address	Position	Principal offices outside KBC Group NV
Franck Donck	Ibervest NV Rijvisschestraat 118BE 9052 Zwijnaarde	Director	Managing Director of 3D NV
Fraanky Depickere	Cera CVBA Philipssite 5/10BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV
Geradin Jean-Marie	Geradin Société d'Avocats 11 avenue Blonden BE 4000 Liège	Director	Lawyer Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV
Dirk Heremans	KUL Faculteit Econ. En Toegep. Wetenschappen Departement Economie Centrum voor Econ.Studieën Naamsestraat 69BE 3000 Leuven	Independent Director	Professor at the Faculty of Economics and Applied Economics Katholieke Universiteit Leuven (KUL)
Herwig Langohr	INSEAD Boulevard de Constance FR 77305Fontainebleau	Independent Director	Professor of Finance and Banking, INSEAD Director of KBC Insurance
Christian Leysen	Anbema NV Noorderlaan 139BE 2030 Antwerpen	Director	CEO Ahlers Group
Xavier Liénart	Kapellaan 60a BE 1200St. Lambrechts Woluwe	Director	Director of various companies and Director of Cera Beheersmaatschappij NV
Philippe Naert	Struikenlaan 13BE 2930 Brasschaat	Independent Director	Dean Tias Business School at Tilburg University and the Technical University Eindhoven
Luc Philips	KBC GroupHavenlaan 2BE 1080 Brussel	Director	Chairman of the Board of Directors of KBC Insurance Vice Chairman of the Board of Directors of KBC Bank Director of KBL European Private Bankers SA
Theo Roussis	Ravago Poederstraat 52BE 2370 Arendonk	Director	CEO Ravago Plastics NV
Hendrik Soete	Aveve NV Minderbroedersstraat 8BE 3000 Leuven	Director	Managing Director of Aveve NV
Alain Tytgadt	Prinses Josphelelaan 7BE 8300 Knokke	Director	Managing Director of Metalunion CVBA
Guido Van Roey	InBev NVBrouwerijplein 1BE 3000 Leuven	Director	Member of Management InBev NV and Chairman of the Board of Directors Cera Beheersmaatschappij NV
Jozef Van Waeyenberge	De Eik NV Eikelenbergstraat 20BE 1700 Dilbeek	Director	Director of De Eik NV
Germain Vantieghem	Cera CVBA Philipssite 5/B10BE 3001 Leuven	Director	Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV Director of KBC Bank Director of KB Insurance
Marc Wittemans	MRBB cvba Diestsevest 40BE 3000 Leuven	Director	Director of MRBB cvba

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

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

Audit Committee and Corporate Governance

The audit committee, which assist the board by supervising the integrity, efficiency and effectiveness of the internal control measures and the risk management in place, paying special attention to accurate and correct financial reporting and overseeing KBC Group's processes to comply with laws and regulations, has responsibilities (under the terms of the Audit Committee Charter drawn up by KBC Group) relating to (i) an annual review of the quality of internal controls (based on statements provided by the executive management and supplemented by the opinion of the internal audit); (ii) the integrity of KBC Group's financial statements and financial reporting process; (iii) policy standards and guidelines for risk assessment and risk management; (iv) the compliance by KBC Group with legal and regulatory requirements, including KBC Group's disclosure controls and procedures; (v) the performance of the internal audit function; (vi) the annual independent audit of KBC Group's consolidated financial statements and internal control over financial reporting, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance and (viii) the fulfilment of the other responsibilities set out in its Audit Committee Charter.

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

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

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

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

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

15. **Memorandum and Articles of Association**

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

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

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

TAXATION

The following is a general description of certain Belgian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Belgium of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment

Belgian Taxation

Belgian Withholding Tax

The holding of the Notes in the NBB clearing and settlement system permits most types of investors (the "**Exempt Investors**", see below) to collect interest on their Notes free of withholding tax, and to trade their Notes on a gross basis.

Participants in the X/N System must keep the Notes they hold for the account of Exempt Investors on so called "X accounts", and those they hold for the account of non-Exempt Investors on "N accounts". Payments of interest made through X accounts are free of withholding tax; payments of interest made through N accounts are subject to a withholding tax of 15 per cent., which the NBB deducts from the payment and pays over to the tax authorities.

Transfers of Notes between an X account and an N account give rise to certain adjustment payments on account of withholding tax:

- A transfer from an N account to an X account gives rise to the payment by the transferor non-Exempt Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- A transfer from an X account to an N account gives rise to the refund by the NBB to the transferee non-Exempt Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- Transfers of Notes between two X accounts do not give rise to any adjustment on account of withholding tax.
- Transfers of Notes between two N-accounts give rise to the payment by the transferor non-Exempt Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date, and to the refund by the NBB to the transferee non-Exempt Investor of withholding tax on the same interest amount.

These adjustment mechanics are such that parties trading the Notes on the secondary market, irrespective of whether they are Exempt or non-Exempt Investors, are in a position to quote prices on a gross basis.

The main categories of Exempt Investors are as follows:

- Belgian resident corporate investors;
- corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not;
- individuals who are non-residents of Belgium, unless their holding of the Notes is connected to a permanent establishment they have in Belgium; and

- non incorporated foreign collective investment schemes (such as *beleggingsfondsen/fonds de placement*) whose units are not publicly offered or marketed in Belgium.

Currently, the main categories of non-Exempt Investors are as follows:

- Belgian resident individuals;
- Belgian non profit organisations (other than pension funds);
- non incorporated Belgian collective investment schemes (*beleggingsfondsen/fonds de placement*) and similar foreign funds whose units are publicly offered or marketed in Belgium; and
- Belgium pension funds that have adopted the form of an organism for the financing of pension (*Organisme voor de Financiering van Pensioenen / Organisme de Financement de Pensions*) as meant in the law of 27 October 2006.

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

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

Capital Gains and Income Tax

Holders of Notes who are residents of Belgium or hold the Notes through a fixed base or permanent establishment in Belgium may be subject to Belgian income tax on the interest collected thereunder and, depending on their tax status, on capital gains realised in respect thereof.

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

Stamp duties

Secondary market trades in respect of the Notes will give rise to stamp duty if they are carried out through a financial institution established in Belgium. The amount of the stamp duty, however, is capped at EUR 500 per transaction per party, and various types of investors (including credit institutions, insurance companies, pension funds and all non-residents of Belgium) are exempted from this stamp duty.

Luxembourg Taxation

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

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

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

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

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income in the form of interest payment (the "EU Savings Directive"). The EU Savings Directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the law of 21 June 2005 and in Belgium by the law of 17 May 2004. Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State with details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual resident or certain types of entities called "residual entities" (the "**Residual Entities**"), established in that other Member State (or certain dependent or associated territories being Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba). For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with one of two procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of the withholding will be of 15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% as from 1 July 2011. The transitional period is to commence on the date from which the EU Savings Directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. See European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC).

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

SUBSCRIPTION AND SALE

KBC Bank NV (the "**Manager**") has, in a subscription agreement dated 18 April 2008 (the "**Subscription Agreement**") and made between the Issuer and the Manager upon the terms and subject to the conditions contained therein, agreed (i) to use its reasonable efforts to procure subscribers for up to EUR 300,000,000 in aggregate principal amount of Notes at their issue price of 101 per cent. of their principal amount plus accrued interest in respect thereof and less a combined management, underwriting and placing commission of 1.00 per cent. of the aggregate principal amount of Notes issued and (ii) if it fails to procure subscribers for at least EUR 10,000,000 in aggregate principal amount of Notes, to itself subscribe for an aggregate principal amount of Notes such that the aggregate principal amount of Notes issued is EUR 10,000,000, at their issue price of 101 per cent. of their principal amount plus accrued interest in respect thereof and less a combined management, underwriting and placing commission of 1.00 per cent. of the aggregate principal amount of Notes issued.. The Issuer has also agreed to reimburse the Manager for certain of its expenses incurred in connection with the management of the issue of the Notes. The Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

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**"), the Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than the offers contemplated in the Prospectus in Luxembourg and Belgium from the time the Prospectus has been approved by the competent authority in Luxembourg and published and notified to the relevant competent authority in accordance with the Prospectus Directive as implemented in Belgium until the Offer Period End Date, 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) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Manager; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

Selling Restrictions Addressing Additional United Kingdom Securities Laws

The Manager has further represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

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. Terms used in this paragraph have the meanings given to them by Regulation S.

Subject as provided below, the Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells 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.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of 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. TEFRA C rules apply. Terms used in this paragraph and the next paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Under United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**C Rules**"), the Notes must, in connection with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, the Manager has represented, warranted and undertaken to the Issuer that, in connection with the original issuance of the Notes:

- (a) *No offers etc in United States*: it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (b) *No communications with United States*: it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if the Manager or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of the Manager in the offer and sale of Notes.

General

The Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

In addition to the application described in this Prospectus, the Issuer may, on or after the date of this Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in any Member State.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolutions of the Executive Committee and Board of Directors of the Issuer dated 18 March 2008 and 20 March 2008, respectively.

Legal and Arbitration Proceedings

2. Save as disclosed in the Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

3. Save as disclosed in the Prospectus, since 31 December 2007 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries and no significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

4. The consolidated and unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2006 and 2007 by Ernst & Young Bedrijfsrevisoren BCV at Marcel Thiry laan 204, 1200 Brussels, Belgium, and who are members of the *Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*.

Documents on Display

5. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the specified office of each Paying Agent 12 months from the date of this Prospectus:
 - (a) the constitutive documents of the Issuer;
 - (b) copies of the Agency Agreement and the Deed of Covenant; and
 - (c) the audited consolidated financial statements of the Issuer for the years ended 31 December 2006 and 2007.

This Prospectus will be published and available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu)

Yield

6. On the basis of the issue price of the Notes of 101.00 per cent. of their principal amount, the gross real yield of the Notes (assuming an inflation rate of 2.78 per cent.) is 1.99 per cent. on an annual basis.

Fees and Expenses

7. The estimated total expenses will be approximately EUR 100,000, plus an amount equal to 1.00 per cent. of the aggregate principal amount of the Notes to be issued, as the combined management, underwriting and placing commission.

Legend Concerning US Persons

8. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "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."

ISIN and Common Code

9. The Notes have been accepted for clearance through the X/N System, Euroclear and Clearstream, Luxembourg. The ISIN is BE5978427268 and the common code is 035927751.

Passporting

10. In addition to the application described in this Prospectus, the Issuer may, on or after the date of this Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in any Member State.

Information in relation to the Reference Entities and Reference Obligations

11. Information on each of the Reference Entities can be obtained on www.standardandpoors.com, www.moodys.com and www.fitchratings.com.

Information about the past and further performance of the Reference Obligations and their volatility can be obtained on Bloomberg. The Bloomberg codes for each Reference Obligation are set out in "Reference Obligations" under "*Terms and Conditions of the Notes - Redemption and Purchase*".

Post-Issuance information

12. The Issuer does not intend to provide post-issuance information under paragraph 7.5 of Annex XII of Regulation (EC) No 809/2004, if not otherwise required by all applicable laws and regulations.

REGISTERED OFFICE OF THE ISSUER

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Luxembourg

PAYING AGENT

KBL European Private Bankers SA
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Luxembourg

DOMICILIARY AGENT AND CALCULATION AGENT

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