Annual Report 2005

Fortis Banque Luxembourg
Société anonyme, 50, avenue J.F. Kennedy L-2951 Luxembourg R.C.S. Luxembourg B 6481

This Annual Report is published in French, English and German. Readers should note that the French original alone is binding.

EUR (millions)	2004	2005	%
Consolidated accounts			
Balance sheet total	34,551.0	42,886.4	24.1%
Amounts owed to customers	27,043.6	28,378.7	4.9%
Statutory own funds	2,848.8	3,132.1	9.9%
Loans and advances to customers and leasing	7,600.0	12,716.7	67.3%
Securities portfolio	13,710.5	17,189.7	25.4%
Net profit (excl. minority interests)	460.5	497.4	8.0%

Ratings	Moody's	Standard & Poor's	Fitch IBCA
Short-term	P-1	A-1+	F1+
Long-term	Aa3	AA-	AA-
Financial strength	B		A/B

Board of Directors

Marcel Mart,
Former President of the Court of Auditors
of the European Communities, Luxembourg,
Chairman (until 31 May 2005)

Jean Meyer,
Doctor of Law, attorney, Oberanven,
Chairman (as from 1 June 2005)

Gilbert Mittler,
Chief Financial Officer of Fortis, Brussels,
Vice-Chairman

Carlo Thill,
Chairman of the Management Board,
Leudelange, Director

Paul Meyers,
Doctor of Law, Luxembourg,
Director

Armand Drews,
Staff representative, Luxembourg,
Director (until 12 May 2005)

Michel Wurth,
Economist, Luxembourg,
Director

Joseph Kinsch,
Chairman of the Board of Directors
of ARCELOR, Luxembourg,
Director

HRH Prince Guillaume of Luxembourg,
Luxembourg, Director

Jean-Claude Gilbertz,
Staff representative, Olm,
Director

Fernand Gales,
Staff representative, Dudelange,
Director

Norbert Roos,
Staff representative, Pétange,
Director

Gabriel Di Letizia,
Staff representative, Bergem,
Director

Corinne Ludes,
Staff representative, Dudelange,
Director

Christian Schaack,
Managing Director of Fortis Bank,
Canach, Director

Aloyse Schiltz,
Staff representative, Aspelt,
Director (until 15 September 2005)

Joop Feilzer,
Member of the Executive Committee of Fortis,
Brussels, Director

Robert Scharfe,
Member of the Management Board,
Niederanven, Director

Camille Fohl,
Member of the Management Board,
Garnich, Director

Marc-Yves Blanpain,
Chairman of the Board of Directors
of Fortis Banque (Suisse) S.A., Brussels,
Director

Board of Directors

Paul Wolff,
Member of the Management Board, Luxembourg,
Director (until 31 December 2005)

Jacques Godet,
General Manager Corporate Consolidation & Accounting
of Fortis Bank, Brussels, Director

Marc Muno,
Staff representative, Mensdorf,
Director

Michel van Pée,
Secretary General of Fortis, Brussels,
Director

Claude Heirend,
Staff representative, Junglinster,
Director (as from 22 June 2005)

Albert Conter,
Staff representative, Arlon,
Director (as from 17 November 2005)

Honorary Chairmen

Georges Arendt,
Doctor of Law, Luxembourg

Marcel Mart,
Former President of the Court of Auditors
of the European Communities, Luxembourg

Honorary Vice-Chairmen

Xavier Malou,
Honorary Director of Generale Bank, Brussels

Ferdinand Chaffart,
Honorary Chairman of the Management Board
of Generale Bank, Brussels

Audit and Compliance Committee

Marcel Mart, Chairman of the Board of Directors,
Chairman (until 31 May 2005)

Jean Meyer, Chairman of the Board of Directors,
Chairman (as from 1 June 2005)

Michel Wurth, Director,
Member

Marc-Yves Blanpain, Director,
Member

Michel van Pée, Director,
Member

External Auditor

KPMG Audit S.à r.l.
Réviseur d'entreprises

Management Board

Carlo Thill,
Chairman

Robert Scharfe,
Member

Camille Fohl,
Member

Marc Lenert,
Member

Thierry Schuman,
Member

Left to right: Marc Lenert (Member of the Management Board), Robert Scharfe (Member of the Management Board), Carlo Thill (Chairman of the Management Board), Camille Fohl (Member of the Management Board), Thierry Schuman (Member of the Management Board).

Senior Management

Retail Banking

Marc Hentgen
Branch Network

Kik Schneider
Marketing & Commercial Strategy

Commercial & Private Banking

Guy Hoffmann
Commercial Banking Luxembourg & Grande Région

Jean Pfeiffenschneider
Private Banking Luxembourg

Karin Schintgen
Commercial & Private Banking Alignment Project

Merchant Banking

Jean Thill
Global Markets

Wolfgang Grohsjean
Corporate & Institutional Banking

Jacques Bofferding
Prime Fund Solutions

Anthony Smith-Meyer
Compliance Group Merchant Banking

Legal

Patrick Gregorius

ALM/Risk Management

Alfons Kirchen

Audit

Marc Olinger
Internal Audit

Jean-Luc Gavray
Fortis Audit Services

Compliance

Marco Heintz

Corporate Control & Accounting

Carlo Lessel

Credits

Pierre Weins

Facility Management

Roby Thill

Tax

Francis Neu

Information Services & Technology

Michel Dauphin

Operations

Jean-Marie Moes
Securities Handling

Patrick Lamhène
Payments

Annemarie Jung
Accounts, Customers and Channels

Marc Aguilar
Fortis Management Team Operations

Organisation

Bruno Ranieri

Human Resources and Professional Development

Christiane Deckenbrunnen

Company Secretariat

Jean-Louis Margue
Secrétaire Général

Pascal Massard
General Advisor

Management Report of the Board of Directors

A new name

On 17 November 2005, Banque Générale du Luxembourg took on a new name, Fortis Banque Luxembourg, in the awareness of the challenges of an increasingly global and increasingly open world.

Under its former name, our bank established a record to be proud of, taking a top place on its home market and extending its reach to the Grande Région, which encompasses neighbouring areas of France and Germany, and beyond, winning respect and loyalty within the industry and among the public at large. Now we are striking out in a new direction with a change that opens up new horizons and offers fresh opportunities for future development.

With the Fortis name, we will be part of the growth momentum driving the group as a whole as it develops new international reach. We clearly have a natural place in a business that does not wait for things to happen, instead taking the initiative to help shape the future of financial services in Europe and around the world.

Our decision was thus a matter of both vision for the future and a commercial strategy that was readily accepted by the clients of all our businesses. The Fortis brand carries a positive, optimistic image with undeniable appeal and our change of name is anything but an abandonment, signalling as it does renewed commitment to growth.

Fortis has chosen to focus resources on a single brand and by taking part in that move from the start, our bank will draw support from massive investments. These, in turn, will enable us to broaden our client base and benefit from new opportunities on all the geographical markets where Fortis is or will be present.

New horizons

In 2005, our bank turned in an excellent performance with net profit close to EUR 500 million, by far the best result of the entire Luxembourg financial centre and one that will help to further reinforce positions in our various businesses.

Number two in Luxembourg for individual clients and number one for professional clients and small and medium-sized enterprises, as well as the undisputed leader in bancassurance, our bank is committed to maintaining and reinforcing those positions. In this, we benefit from our place in one of Europe's most efficient and most dynamic financial groups, enabling us to reduce operating costs in many areas and offer clients highly competitive rates.

Through the network of Fortis Business Centers spanning 15 – and soon 27 – European countries, our bank is well placed to provide businesses and entrepreneurs with the support they need for expansion in Europe and an increasingly open global economy.

Over the years, combined offerings of insurance and banking services have generated undeniable value for our clients, most notably through insurance and savings products attached to mortgages.

In this, as in other areas, continuing expansion of our range of products and services, illustrated in particular by banking packages to match varied needs, gives our clients at home the benefit of the expertise, resourcefulness and reach of the Fortis group as a whole.

Shared commitment

Our new name in no way diminishes our commitment to serving our home market and our dedication to good corporate citizenship as a full participant not only in Luxembourg's economy but also in its cultural, sporting and social life.

Quality service and communications are and will remain a daily commitment for all our staff members. Well trained and fully aware of their vital role in all aspects of client relations, they will continue to keep pace with changing demands.

We are convinced that their openness, determination and dedication will enable them to meet the challenges of effective client service and, by the same token, those of our environment, to outdo our competitors.

For while we are naturally proud of the title of "Best Bank in Luxembourg" we have regularly been honoured with, it is first of all an inspiration and a challenge for us all, individually and collectively, to do even better in the future, to move ahead and achieve ever higher levels of performance.

Carlo Thill
Chairman of the Management Board

Jean Meyer
Chairman of the Board of Directors

Carlo Thill, Chairman of the Management Board. Jean Meyer, Chairman of the Board of Directors

Consolidated Management Report

Consolidated Financial Statements

Balance Sheet

The scope of consolidation of Fortis Banque Luxembourg SA (referred to as "the Bank" in what follows) has undergone significant changes. These concern in particular the integration of the Fortis group's leasing businesses through holding company Fortis Lease Group SA, a wholly-owned subsidiary of the Bank. The companies charged with Trust business were excluded from the scope of consolidation with effect from 1 October 2004.

Fortis Banque Luxembourg's *balance sheet total* at 31 December 2005 came to EUR 42,886.4 million, 24.1% more than at the same date in the previous financial year.

This increase was primarily due to consolidation of Fortis Lease Group and its subsidiaries, with refinancing of leasing transactions through the Bank leading to a rise of EUR 6,182.9 million in *amounts owed to credit institutions*.

Amounts owed to customers came to EUR 28,378.7 million, representing 66.2% of the Bank's liabilities. The 4.9% increase in this item was principally due to a rise in loans from institutional investors.

Statutory own funds were reinforced with the appropriation of the full amount of profit for the 2004 financial year to reserves and the issue of subordinated loans to finance the Bank's expansion. Assuming the proposed appropriation of profits is approved at the Annual General Meeting on 6 April 2006, the risk asset ratio at 31 December 2005 will be 12.9%, testifying to a high degree of financial stability.

On the assets side, the EUR 3,900.5 million decline in *loans and advances to credit institutions* mainly concerns booking procedures within Fortis Banque SA following the reorganisation of the Fortis group's trading room activities under the Single Legal Booking Entity (SLBE). Investments in *debt securities and other fixed-income securities* rose by 18% to represent an additional amount of nearly EUR 2.4 billion.

Loans and advances to customers recorded a steep 23.8% rise from 31 December 2004. The average rise over the year was 10% and reflects the appeal of professional investment and mortgage loans combined with the expansion of Commercial Banking activities in the *Grande Région* and an increase in *Optiflex* credit accounts held by professionals and investors.

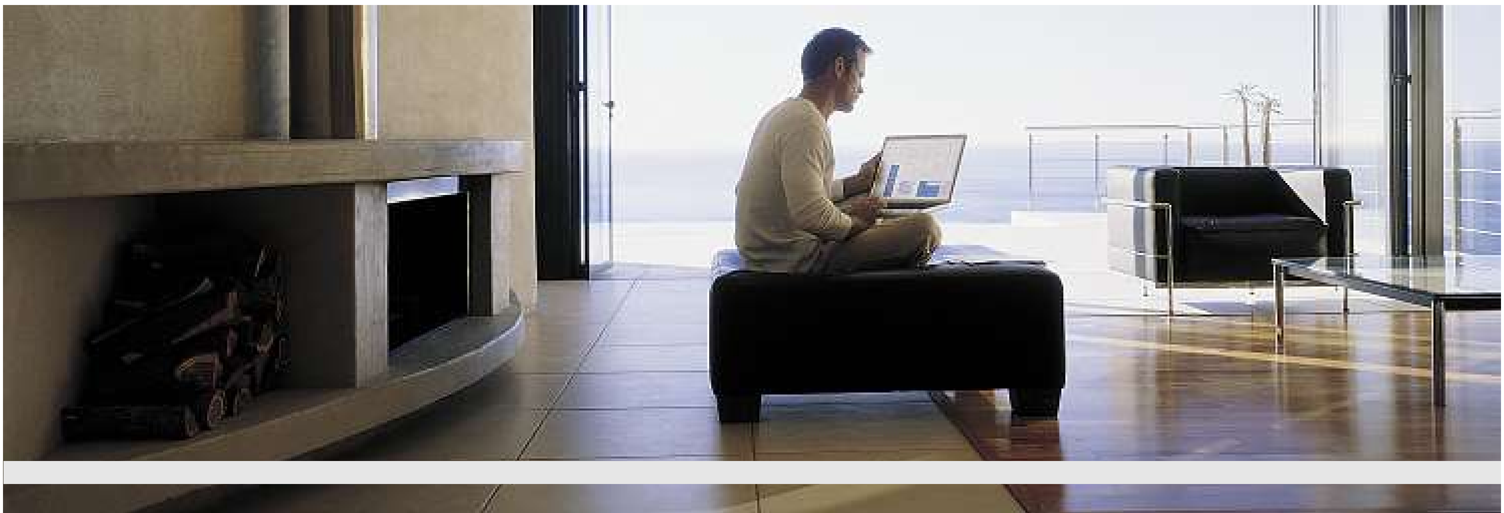
Rises of EUR 3,508 million in *leasing transactions* and EUR 3,462.5 million in *tangible assets* reflect clients’ financing through operating and financial lease transactions.

The Bank's leasing subsidiaries posted remarkable growth throughout the year.

A EUR 1,079.6 million rise in *shares and other variable yield securities* was mainly attributable to a financing transaction made in the course of the year in connection with a financial structuring transaction.

Profit and Loss Account

Net interest income declined 6.5% from the previous year, partly as a result of the cost of funding for the investment in leasing at the beginning



of the year and partly because income from operational leases is received in the form of rents and booked under other operating income. The positive effects of the rise in the amount of loans to clients on interest income were partly offset by pressures on margins.

A EUR 38.2 million rise in *securities income* was primarily attributable to the income from BIP Investment Partners SA (formerly BGL Investment Partners SA), and MeesPierson International Global Holding, recorded under the equity method.

A 6.8% decline in *net commission income* is primarily attributable to the sale at the end of 2004 of Trust subsidiaries, which derived most of their income from commissions on transactions with their clients. Excluding these items, net commissions showed a healthy rise due, among other things, to a steep rise in assets under management and favourable trends in the distribution of insurance products and banking packages as well as an upturn in stock-market trading.

Profit on financial operations rose 25.4%, benefiting from the reversal of provisions on securities sold in the course of the year.

The *other operating income* item includes rentals received by leasing subsidiaries on transactions classified as operational leases. The EUR 730.6 million rise in this item is counterbalanced by the inclusion of the depreciation charges for assets leased under *value adjustments in respect of tangible and intangible assets.*

General administrative expenses rose 16.1% despite the continuation of strict cost-containment policies. However the increase at constant scope of consolidation was limited to 5% or EUR 16.4 million.

Salary increases granted by the Bank, the impact of wage indexation and a rise in staff numbers were reflected in a rise of 5.2% or EUR 10.9 million in *staff costs*.

Investments in infrastructure needed for business development and compliance with new banking regulations led to a rise of EUR 5.5 million in *other administrative expenses* at constant scope of consolidation.

In 2004, *value adjustments and provisions* included reversals totalling EUR 58 million in connection with repayment of commitments affected by sovereign risk and reduced exposure to sector risk for which provisions had previously been set aside. Provisions and value adjustments were also reversed in 2005, but the amount was much more limited (EUR 6.5 million).

Pre-tax results on ordinary activities rose 6% from the previous year, but tax was practically unchanged at EUR 114.8 million, reflecting a rise in tax-exempt income.

Net profit (excluding minority interests) thus came to EUR 497.4 million in 2005, showing a rise of EUR 36.9 million or 8% from the previous year.

At constant scope of consolidation, net profit (excluding minority interests) was slightly higher than in the previous year, which is highly satisfactory considering the scale of value adjustments written back in 2004.

Consolidated Interest-Rate Risk Management

Consolidated interest-rate risk is managed by the Bank's ALM-Risk Management unit.

In addition to instruments for reporting to the Bank, subsidiaries Fortis Lease Group SA, Sade SA and Fortis Banque (Suisse) SA (formerly Banque Mees-Pierson BGL (Suisse) SA) also have tools for in-house analysis of interest rate risk at their disposal.

The Bank's exposure to interest-rate risk is subject to several limits as regards value and revenue, applying to both consolidated interest-rate risk and that of individual subsidiaries. The duration of consolidated own funds stood at 4.33 years at 31 December 2005, allowing for most of the interest-rate risk borne by Fortis Lease Group.

The principles of interest-rate risk management described in the unconsolidated section of the management report also apply to consolidated interest-rate risk. The Bank's consolidated exposure and the positions of subsidiaries are regularly reviewed by the Bank's Asset and Liability Committee.

Activities of the Bank during the Year

In line with the strategy announced by the Fortis group at the start of 2005, calling for growth backed by an exclusive focus on the Fortis brand, the Bank's Extraordinary General Meeting of 17 November 2005 decided to adopt its new name, Fortis Banque Luxembourg SA.

In addition to an extensive campaign addressing the general public, the Bank took special care in communications explaining this historic event and the reasons behind it to staff and clients.

Retail Banking

The year was marked by rises in mortgage lending, consumer loans to private individuals and investments loans to professionals.

Property loans to private individuals were again on a very firm track, showing a rise of over 10%. This healthy growth in the face of increasingly stiff competition rewarded the breadth and competitive appeal of the Bank's offering backed by continued investment in training for customer advisors.

In October 2005 the Bank launched its *Prêt-Relais* credit offering in cooperation with *Bausparkasse Schwäbisch Hall*. Combining a traditional mortgage loan and a home savings contract, this new product gives clients the benefit of tax advantages and scope to extend the duration of their home loans.

Set up at the end of 2004 as part of a resolutely client-oriented commercial strategy, the Contact Centre, which handles client queries and related follow-up, made steady progress throughout 2005. In this it benefited from the integration of Multiline, Phonebanking and Web Banking help desks in June 2005. Over the year, the Centre dealt with over 600,000 client contacts.

Turning to offerings for Personal Banking clients, *Global Invest* and *Global Invest Active* investment packages posted significant growth over the year. This was even more the case for *Global Invest Comfort*, a fund-based discretionary management package allowing clients to put their assets in the hands of specialized teams.

There was also a healthy rise in structured products for Personal Banking clients.

Always on the lookout for new clients and markets, in 2005 the Bank successfully undertook a variety of initiatives to win new Personal Banking clients in the German Saarland and western Rhineland-Palatinate.

To meet the specific needs of expatriates, the Bank in April 2005 launched an offering that combines banking products and services with other benefits made available on attractive terms in association with partners in varied sectors. Expatriate clients have access to these services with the *FBL International Client Card* they receive when they subscribe.

In *Daily Banking* services, distribution of Global packages continued to show good results in 2005, with additional non-banking benefits reinforcing the appeal of these all-in-one solutions. New benefits include a special mobile telephone subscription offered in association with Voxmobile and *TASTE*, a new programme for privileged access to top restaurants in Luxembourg and the *Grande Région*.

Similarly, the *Frontaliers* offering launched in 2004 for clients living in neighbouring areas of Belgium, France and Germany was rounded out with additional products and services tailored to the needs of cross-border commuters.

Global Pro and *Global Pro+* packages for professional clients continued to make good progress over the year, reflecting the appeal of these comprehensive solutions simplifying day-to-day operations for the self-employed, professionals and small businesses.

In November 2005, the Global Pro+ package was rounded out with the *Visa Business* credit card for businesses and *MasterCard Gold* for the self-employed and professionals.

The *id by Fortis* offering launched in June 2004 for clients aged 12 to 24 continued to gain momentum. In addition to a range of free banking services, this gives younger clients access to a variety of non-banking benefits, in particular relating to mobile telephony.

Turning to electronic banking services, the website and high-security WebBanking service were revamped in November 2005 to reflect the Bank's name change. In the course of the year, WebBanking benefited from a variety of updates and enhancements enriching content and increasing user-friendliness to make it a benchmark for financial services in Luxembourg.

In bancassurance, the Bank builds on close cooperation with Fortis Luxembourg Assurances (FLA) to offer a comprehensive range of competitive solutions backing its strategy for further development in the sector. Through this fruitful partnership, clients have one-stop access to banking and insurance products with know-how pooled to meet the specific needs of both residents and non-residents. Active commitment to promotion once again yielded good results in 2005, with healthy growth in life insurance, particularly unit-linked products.

Two innovative products were added to the life insurance line-up to cover practically the full range of client needs. The first of these is *Optilife Comfort*, which combines the advantages of discretionary fund-based management with those of life insurance, offering a choice of three risk profiles: defensive, neutral and dynamic. It is no doubt the most sophisticated multi-support life insurance product in the range. The other addition is *Optisave*, a flexible policy with clear appeal, allowing clients to build up a savings reserve with periodic premiums.

During the year, the Bank continued work on an extensive programme to revamp branch offices and ensure the highest levels of comfort and security for quality banking services. The team at Niederanven was thus able to move back into fully refurbished premises. Half a dozen branches also welcomed clients to a variety of events and celebrations, reflecting their continued commitment to long-standing ties to their local communities.

Internaxx – a recognized leader in on-line brokerage

Fortis Banque Luxembourg's subsidiary Internaxx Bank SA again saw healthy growth in 2005, winning new clients and posting rises in both assets under management and client trading.

During the year, UK magazines *Shares* and *Investment International* named Internaxx Bank the Best Offshore Broker and Best Overseas Share Dealing Service, underscoring its place as a top provider of on-line brokerage services for international and expatriate clients.

Internaxx has rounded out its offering with access to derivatives in addition to equities and investment funds. Clients can thus now use its platform for the execution of trades in currencies (Forex), futures and contracts for differences.

Commercial and Private Banking

In January 2005, the Fortis group adopted a new strategy with a clear focus on synergies between commercial and private banking, setting it apart from others in Europe.

Closer ties between the two business lines, which naturally retain distinct offerings distributed through separate networks, allow them to broaden and deepen client relationships by extending the range of core competencies in financial solutions while at the same time building on privileged relationships with their respective client bases.

The alliance between commercial and private banking is also an essential component of Fortis' strategy for pan-European growth in the sense that it will contribute to consolidate and expand the group's positions across the 25-member European Union.

Commercial Banking

The Bank's commercial banking operations cover Luxembourg and the *Grande Région*, which encompasses neighbouring areas of France and Germany, through four Business Centres and subsidiary SADE.

Recognized leadership in the segment is based on a comprehensive offering of products and services including electronic transactions, specialized consultancy, and support for business startups and successions to meet the needs of professional clients, who benefit from the Fortis group's Europe-wide reach.

The network of business centres the group has built up over recent years provides businesses and entrepreneurs with effective backup for expansion in Europe and other parts of the world with access to know-how and resources matching their international ambitions.

In the first half of 2005, the leasing operations of the Fortis group were brought together through Fortis Lease Group, a Luxembourg holding company that is a wholly-owned subsidiary of Fortis Banque Luxembourg. The company now heads up property and equipment leasing businesses in 13 countries including that of Fortis Lease Luxembourg (formerly Eurolease Factor).

The factoring business of former Eurolease Factor, leader for the sector in Luxembourg, was contributed to Fortis Commercial Finance and now operates under the name Fortis Commercial Finance Luxembourg.

This new organization optimizes legal structures and refinancing options, at the same time allowing more effective risk management and opening up new scope for synergies resulting from the international integration of these operations.

With new capital adequacy requirements now applying to banks, leasing and factoring will be a special focus of business expansion and international integration will be a significant advantage in this area.

Fortis Banque Luxembourg plays a pivotal role in the *Grande Région* which has developed into an integrated economic area in Europe's heartland. Its four Business Centres in the region — including one in Luxembourg, one with dual bases in Trier and Saarbrücken, one in Metz and one in Strasbourg — are part of the Fortis group's Europe-wide network of over 115 centres now serving clients in 15 countries. This makes the Bank a natural partner for businesses with cross-border and international operations.

The centers' healthy business growth under a single brand that is increasingly gaining market recognition throughout Europe, combined with the continuous extension of the group's geographic reach as well as significant

Taxation of savings income

Preparation began early to deal with the commercial implications of the harmonization of taxation of savings income in the EU. Clients received full information and regular updates while strategies for the management of the personal assets were revamped with support from an extended range of alternative investment products.
A dedicated help desk drawing on support from specialized advisers was also set up to respond to clients' queries on withholding tax.
Technical preparations included an overhaul of information systems to deal effectively with the new requirements from the date they came into force on 1 July 2005. Similarly, additional resources and new procedures were introduced to speed up processing of client requests regarding their new tax positions.
These developments were also the occasion to ready for the forthcoming implementation of legislation imposing withholding tax on Luxembourg residents.

investments in the development of innovative, value-added products, is proof enough of the synergies realized within the Fortis group.

In May 2005, through a second public offering followed by the company's delisting, Strasbourg-based SADE (Société Alsacienne de Développement et d'Expansion — SDR) became a wholly-owned subsidiary of the Bank. In connection with this transaction, SADE subsidiaries Batical and Sicomi Rhône-Alpes, both specialized in business property leasing, were integrated into Fortis Lease Group.

SADE has maintained its traditional focus on equity financing and medium to long-term business loans, particularly in Eastern France, as well as its close links to regional institutions. In 2005, it again made the most of its long-standing presence and cooperation with the Business Centres to post excellent results.

Private Banking

The business environment for Private Banking was marked by vigorous growth in the world economy, favouring equity investment, and the introduction of a new framework for taxation in the EU.

Private Banking Luxembourg

Private Banking Luxembourg, the Bank's specialized business line, operates through the Royal-Monterey Centre in the city of Luxembourg and four Private Banking Centres in Ettelbruck, Clervaux, Luxembourg Gare and Wiltz.

Close cooperation with the Bank's other business lines and Fortis group operations in Luxembourg including MeesPierson Intertrust, Fortis Luxembourg Vie and Fortis Investments enables the Bank to offer clients immediate access to a rich variety of tailor-made solutions to match their requirements for the preservation and optimization of assets and effective estate planning.

In wealth management, the Bank has rounded out its offering of traditional investment products with alternatives including absolute return vehicles, hedge funds and private equity.

With a view to optimizing the group's business development on new markets, focused mainly on Scandinavia, Russia, Poland and Turkey, an International Private Banking section has been set up within its Private Banking business line, with a dedicated Luxembourg and Swiss team working to make the most of potential on these high-growth markets.

Business development in this area is conducted in close cooperation with the Commercial Banking business line and trust service experts.

Turning to product innovation, a new Private Banking team has been set up to pool expertise in the various fields relating to property investments, enabling the Bank to offer various options to structure property holdings. Three types of vehicles for direct property investments are now an integral part of its range.

Launched in May 2005, the *MeesPierson Private Real Estate Fund* stands apart from all other offerings on the European market in terms of structure and investment policy. A closed-end Luxembourg fund (SICAF), it enables clients to make direct investments in properties across a number of different European markets. The Bank also offers Private Partnership Structures enabling a group of individuals to invest in a closed-end vehicle with properties in one, two or three countries, as well as one-to-one vehicles for individual investors interested in a specific property.

Private Banking International
At the Extraordinary General Meeting of 22 September 2005, shareholders of the Bank's Swiss subsidiary Banque MeesPierson BGL SA voted to change the registered name of the business to Fortis Banque (Suisse) SA. This change concerns entities based in Geneva, Zurich, Lugano and Nyon as well as the new branch opened in Sion, Canton of Valais, in summer 2005.

Specialized in wealth-management services including alternative investments and private equity, Fortis Banque Suisse also offers effective support in financial, legal and tax structuring, working in close cooperation with the Trust and Corporate Services entities of the Fortis group. It backs this up with a variety of financing options including Lombard loans, bank guarantees and financing for residential and investment property. In this area, financing for properties in Switzerland has seen particularly strong growth, with the mortgage portfolio showing a rise of nearly 200% in 2005.

In 2005, Fortis Banque Suisse also obtained a banking licence in the United Arab Emirates, enabling it to offer a full range of wealth management and structuring services to clients in the Middle East and the Indian subcontinent. The new branch has a team of ten based in the Dubai International Financial Centre.

Merchant Banking

In 2005 Merchant Banking Luxembourg made the most of its position in the Fortis group to optimize and expand its offering.

Global Markets

The macroeconomic environment was marked by continued pace in North America and strong growth in Asia contrasting with disappointing performances in Europe, where prospects were nonetheless favourable. Against this backdrop, trading room operations made a significant contribution to the Bank's results in 2005.

In line with group strategy, the initial priority consisted in further developing and geographically diversifying Sales activities. Reinforcement of German-speaking teams won a number of new corporate clients in Germany and Austria.

Product diversification was a second focus of business development. Through the *Single Legal Booking Entity (SLBE)*, clients have access to the full range of group services. The reorganization of the *Structured Products* unit thus drew on the intrinsic strengths of the Bank while significantly reducing time to market. In the *Fixed Income* segment, offerings were rounded out with credit-linked products.

Fortis Banque Luxembourg named *Best Bank in Luxembourg* in 2005

International business magazine *Euromoney* named Fortis Banque Luxembourg the *Best Bank in Luxembourg* for the fifth year running in 2005, an honour reflecting its sound financial base, focused growth strategy and success in the development of new products and services.

Origination and securitization operations from Luxembourg also benefited from the group's support. The *Forex Option Desk* has broadened its range with standardized deposits optimized for currency options, thus meeting the needs of a growing clientele more effectively. *Trading* operations were expanded to include covered bonds and short-tem swaps. The *Euro Medium Term Notes* and *US Commercial Paper* programmes strongly contributed to the diversification and consolidation of funding, allowing a significant increase in the investment portfolio.

Corporate and Investment Banking

Within the Fortis group, the Corporate and Investment Banking Luxembourg (CIB Luxembourg) team is responsible for relationships with corporate clients in Luxembourg, Germany, Austria and German-speaking Switzerland.

Business conditions in 2005 were again marked by consistently low interest rates, leading to strong demand from businesses for replacement of syndicated credit lines to take advantage of lower margins and extended maturities.

As in 2004, a number of credit lines granted by CIB Luxembourg and handled by the FBL Trading room were recorded under the Single Legal Booking Entity (SLBE) in the name and on the behalf of Fortis Banque Luxembourg SA. The unique SLBE structure allows the economies of scale that go with large volumes while at the same time preserving local ties and know-how.

The dedication of the CIB Luxembourg team and that of Fortis as a whole to the best in client service, resulting in the consolidation of relationships, won the Bank mandates in two major asset-backed securitization structures on the German market, in one case for warehousing refinancing and in the other for bond refinancing.

Another highlight of the year was the Bank's first appointment as mandated lead arranger for a syndicated credit in the German-speaking area.

Finally, the Bank won a significant number of mandates for institutional bond issues, of which BMW Group.

Prime Fund Solutions

Since June 2005, the Bank has been offering its fund services under the name *Fortis Prime Fund Solutions*, while the Institutional Banking department will be merged into the Corporate and Investment Banking division in 2006.

Prime Fund Solutions Luxembourg acts as depositary bank, central administrator, registrar and transfer agent for all types of investment funds established under Luxembourg law.

An important current concern for promoters is compliance of their undertakings for collective investment in transferable securities with the EU's so-called UCITS III Directives (EU 107/2001 and EU 108/2001). Prime Fund Solutions Luxembourg has advised several fund promoters on necessary adjustments to their offerings and has joined with Fortis Investments Luxembourg and Mees-Pierson Intertrust Luxembourg to develop solutions enabling management companies to meet the capital requirements defined in the EU 107/2001 Directive.

During 2005, alternative investment vehicles including hedge funds, venture capital funds and real-estate funds, for which Fortis Prime Fund Solutions is a leading service provider, were a special focus of attention. Drawing on the strengths of the Fortis group as a dominant player in the sector, Prime Fund Solutions Luxembourg was able to win a string of mandates in Luxembourg for private equity, real estate and hedge funds and strongly positioned itself among the first suppliers of depositary services for the venture capital funds *SICAR (Société d'Investissement en Capital à Risque)* introduced under Luxembourg legislation dated 15 June 2004. Success reflects the benefits of a promotional drive undertaken in the closing quarter of 2004 as well as the fact that these funds can invest in property development, a sector where Prime Fund Solutions is particularly well placed. In less than 18 months, 30 funds of this kind were set up and have proven a big success on the Luxembourg market, reflecting the appeal of this product that combines the security of a regulated vehicle with the investment flexibility typical of unregulated vehicles. In 2005, the Bank set up a dedicated desk for depositary services to hedge funds, including SICARs.

Operations

Securities Handling

2005 was an important year for the development of new organizational structures and common operating platforms for the Fortis group's entities in the Benelux countries.

Cross-border projects have already yielded initial benefits with the start-up of the first competence centers for Securities Handling serving all the group's non-institutional clients to better match private clients' needs.

Fortis Banque Luxembourg wins *2005 EMTN Issuer Award*

MTN Intelligence, an independent organization recognized as an industry reference for bond market information, chose Fortis Banque Luxembourg for its 2005 EMTN (Euro Medium Term Notes) Issuer award.

This reflected the Bank's leading market positions and the innovative flair that has regularly won it a place among the top 20 issuers of structured products over recent years.

In 2005, Fortis Banque Luxembourg made 445 EMTN issues representing a total of USD 4.4 billion to take 16th place worldwide.

The year also saw a significant rise in the volumes handled, particularly for investment funds, which have won growing favour with clients. This did not affect the level of risk exposure, which was held below that prevailing in the previous year.

The downward trend in volumes of certificated securities, particularly in connection with coupon encashment, continued, reflecting changes in the tax environment.

Payments

The year 2005 saw two major developments relating to the Single European Payment Area (SEPA) for euro-denominated transactions that is to start up in 2008. These were the European Commission's proposal for a Directive to establish a New Legal Framework for Payments in the Internal Market, and the publication at the initiative of the European Payments Council of a schedule for the move to a single payment area including proposals for the definition of future pan-European payment products.

In preparation for the sweeping changes to come, which experts expect to lead to consolidation of payment activities, the Bank made an active contribution to the creation of the Fortis group's Shared Service Centre Payments, at the same time overhauling its own operations and related information systems.

In domestic payments, the year was marked by the decision of the Luxembourg banking community to stop using the *Lips-Net* local clearing system from October 2006 on and switch to the pan-European *Eba-Step2* system. Luxembourg will thus be ahead of schedule as Europe's first SEPA-compliant financial centre. As part of the move, the Bank has been an active participant in the *Eba-Step2* and *Euro1* systems since the end of 2005.

These changes will make for significantly simpler payment procedures and quicker execution, as well as the pricing transparency needed for the Single European Payment Area.

Finally, volumes in physical instruments including standard-form transfers, cheques and bills showed a continued decline.

Accounts, Customers and Channels

Within the framework of the anti-money laundering legislation now in place, the Bank has redefined its mission in relation to Know Your Customer principles to best respond to legal, regulatory and commercial requirements.

Related processes have been fully computerized and standardized, doing away with all physical documents and enhancing overall effectiveness in the administration and verification of client files.

Turning to payment cards, the Bank has now completed the renewal of all credit and debit cards, applying the new European technical standard EMV (Euro-Visa-MasterCard) with an incorporated micro-chip for greater security.

In June 2005, the Payment Support department took over administrative and operational responsibility for electronic payments via WebBanking, Phonebanking and MultiLine services.

Information Services & Technology

As in previous years, the Bank showed continuing commitment to the enhancement of information systems with the aim to meet new client needs, improve process efficiency, control the cost of production, reduce exposure to operational risk and keep step with changes in the banking and regulatory environment.

Efforts in support of sales and marketing focused on electronic document management, pricing flexibility and standardization of package offerings to bring new products and services to market more quickly and economically. Credit administration has also been updated and all systems have integrated the brand shift to Fortis Banque Luxembourg.

Turing to regulation, International Financial Reporting Standards (IFRS), Basel II, the prevention of money laundering and EU withholding tax were again the main issues addressed. Early action enabled the Bank to ensure timely compliance with the EU Savings Directive and at the same time ready for the introduction of withholding tax for Luxembourg residents.

Work on IFRS and Basel II compliance went ahead according to plan with new reports produced on time.

Investment in IT infrastructure continued to keep step with the needs of clients and the Bank's various business lines, aiming for the highest possible standards of availability, performance, security and mobility.

Backing the strategy of the Fortis group, IT teams significantly contributed to the elaboration of transformation plans. These plans are designed to optimize and standardize each business line's information systems over the coming years. Similarly, the transformation plan of Information Services & Technology will secure uniform, standardized infrastructure services, development processes and IT support throughout the group.

Human Resources

Staff numbers at Fortis Banque Luxembourg were little changed in 2005. While continuing improvements in administrative and operational procedures allowed optimization of staffing in some areas dealing with large processing and output volumes, enhancement of client services remained the prime concern and this, along with work on several major projects, involves highly qualified specialists.

Faced with a rapidly changing environment, the Bank continued to make a significant commitment to training as a means to develop skills and preserve the employability of staff members over the longer term. All told, staff members benefited from nearly 8,000 days of training. In this the emphasis was on the strategic priorities that have guided action for several years, with programs centering on areas that included prevention of money laundering, banking ethics, products and services calling on varied expertise, process optimization and language skills.

During the year, a number of projects undertaken in association with staff representatives reflected the Bank's commitment to corporate responsibility, in particular by providing the necessary environment for a healthy balance between working and private life.

In November 2005, the Bank officially inaugurated its in-house daycare centre for around 60 children. Located near the Bank's head office in Luxembourg-Kirchberg, the facility has been in place since October 2003. Initially operated by an outside provider, responsibility was taken over in September 2004 by a company (s.à r.l.) administered jointly by staff representatives and representatives from the human resources department.

To help staff members achieve a healthy balance between working and private life, the Bank also actively promotes part-time employment and has reinforced measures enabling employees to build up holiday entitlements and take extended leave for their personal projects.

Human Resources at Fortis Banque Luxembourg

At 31 December 2005, the Bank counted 2,482 employees, of whom 1,338 or 53.9% were men and 1,144 or 46.1% were women. The Bank thus remains one of the two largest employers in the Luxembourg banking industry.

During the year, 164 new employees were recruited.

The proportion of employees working part time rose from 16.38% in 2004 to 17.08%, representing a total of 424 people in 2005.

Over 25 nationalities are represented in the Bank's workforce, with origins breaking down as follows:

Luxembourg	52.5%
France	18.5%
Belgium	17.3%
Other EU countries	11.2%
Countries outside the EU	0.5%

The average age is 39.76 and average seniority 14.43 years.

Health and well-being at the workplace are also a natural priority, and the Bank takes a proactive approach with initiatives including regular health days organized in cooperation with staff representatives and free medical check-ups for employees.

The Bank is keenly aware of how much it owes to staff members and their representatives and expresses its gratitude for their dedicated efforts over the past year.

Unconsolidated Management Report

Unconsolidated Financial Statements

Whereas the preceding section of this management report relates to the Fortis Banque Luxembourg group as a whole, the following information relates only to the parent company.

At 31 December 2005, the unconsolidated *balance sheet total* came to EUR 36,436.1 million, showing a rise of 6.3% from EUR 34,272.9 million at 31 December 2004. This results principally from loans granted to group leasing companies in connection with the centralization of this business in Luxembourg.

The inflow of funds from institutional clients, in most cases based in other countries, contributed to a rise in the amount of *Debts evidenced by certificates*.

Own Funds

Subscribed capital at 31 December 2005 amounted to EUR 350,000,000, represented by 13,732,035 shares.

If the Annual General Meeting of 6 April 2006 approves the appropriation of profits proposed below, the Bank's unconsolidated own funds included in the calculation of the solvency ratio will amount to EUR 2,398.6 million at 1 January 2006.

Acquisition and Holding of Own Shares

In accordance with Article 49(2) of the Law on Commercial Companies, the Annual General Meeting of 1 April 2004 authorised the purchase by the Bank of up to 15,029 paid-up own shares, representing all shares not yet held by its majority shareholder, Fortis Bank SA.

At 31 December 2004, the Bank held 316 own shares, and in the course of 2005 purchased a further 2,249 shares under the authorization referred to above, which it then sold in full to its majority shareholder, Fortis Bank SA. Following these transactions, the Bank held none of its own shares at 31 December 2005.

Profits and Allocation of Profits

In 2005, the sum of *net interest income, income from securities, net commission income* and *profit on financial operations* earned by the Bank was EUR 801.7 million, up 6.4% from EUR 753.3 million at 31 December 2004. This rise was attributable to several factors. *Income from securities* was up EUR 44.8 million as a result of a healthy rise in dividends received from subsidiaries. *Net commission income* remained on the upward track observed in previous years, reflecting the good performance of equity markets in 2005, a rise in assets under management, and the success of the Bank's offering of insurance products and banking packages. *Net interest income*, in contrast, declined 6% from the previous year, reflecting the cost of funding for the investment in leasing companies at the beginning of the year and interest paid in connection with financial structuring operations. The positive effect of a rise in loans to customers was partly offset by pressure on interest margins.

Other operating income came to EUR 66.8 million, an amount that includes a substantial capital gain realized in connection with the reorganization of the Fortis group's leasing and factoring business. In 2004, the same item included a capital gain relating to the restructuring of the Fortis group's Trust business.

General administrative expenses rose 4.4% from EUR 272.7 million at 31 December 2004 to EUR 284.7 million at 31 December 2005. *Staff costs* increased 5.1%, due in particular to the application of collective labour agreements and indexation of salaries. The average number of employees was 32 higher than in 2004. *Other administrative expenses* were little changed from the previous year, showing a rise limited to 0.4% as a result of efforts to contain costs already initiated in previous years.

Value adjustments in respect of tangible and intangible assets declined by EUR 13.2 million or 21.2% in the year to 31 December 2005 as depreciation of certain intangible assets and technical equipment at the Kirchberg building was completed.

While maintaining a prudent approach in the assessment of specific risks during the year, the Bank was able to record write-backs of value adjustments on loans and securities, albeit not on the same scale as in the previous year.

Pre-tax results on ordinary activities rose 3.9% to EUR 535.6 million. *Tax on results on ordinary activities,* however, declined by EUR 24.1 million or 26.7% to stand at EUR 66.2 million. This decline reflects a significant rise in non-taxable dividends received and other tax-exempt income relating to financial structuring operations.

Financial Risk Management: Objectives and Strategies

It should be noted that these operations result in the transfer of liability for taxes previously paid directly by the bank to financing entities also established in Luxembourg.

All told, *unconsolidated net profit* amounted to EUR 468 million, showing a 10.4% rise from the previous year. Distributable profit for 2005, including profit carried forward from the previous year, thus amounts to EUR 468.2 million.

The Bank proposes the following allocation of profits to the Annual General Meeting:

Dividend of EUR 21.85 on 13,732,035 shares	EUR	300,044,964.75
Statutory allocations	EUR	1,181,402.00
Allocation to free reserves	EUR	119,400,000.00
Allocation to the wealth tax reserve	EUR	47,500,000.00
Retained earnings	EUR	105,551.00
Total	EUR	468,231,917.75

If these proposals are adopted, a dividend in a gross amount of EUR 21.85 per share will be payable to shareholders on presentation of coupon no. 25, the coupon no. 24 being declared without value.

Performances in the Bank's businesses since the close of the 2005 financial year remain favourable.

Financial Risk Management: Objectives and Strategies

Management of financial risk is a central concern for Fortis Banque Luxembourg. Stringent methods, reflected in the Bank's financial strength, are the key to the confidence of its customers and counterparties.

Financial risks are monitored and managed by specialized committees. In addition to monitoring limits on exposure set for the different activities, specialized Bank entities are charged with conducting analyses to serve as the basis for decisions in financial risk management.

Risk analysis methods increasingly use quantitative models, and are based on very specific, dedicated information and calculation systems. These methods and systems are the object of continuing development.

Risk Management Policy

Risk Management Policy defines the principles governing the management and control of the Bank's risks. It applies to all business entailing market risk or credit risk and includes aspects of operational risk management. Lending, trading-room operations, and asset and liability management in connection with the Bank's own portfolios are natural priorities.

To allow for efficient balance sheet management, limits and policies for different areas of business are regularly revised. Limits are set on the basis of the Bank's own funds and earnings objectives.

Risk Management Committees

Credit risk

The Central Credit Committee, meeting weekly, is responsible for credit risk control. It has the authority to approve major individual loans, to determine criteria and conditions for lending, and to terminate or suspend credit. Specialised Merchant Banking, Retail Banking, and Commercial and Private Banking committees deal with issues and matters that do not fall within the exclusive purview of the Management Board or Central Credit Committee.

Market risk

The Asset and Liability or ALCO Committee, which meets every two months, is responsible for balance-sheet management within the framework of the overall market risk limits laid down in the Risk Management Policy and the objectives and strategies defined by the Management Board. The committee monitors changes in the Bank's exposure to market risk and the present value of balance sheet aggregates. It may call for any amendments to the balance sheet and off-balance sheet structure necessary in the light of trends on financial markets.

Any project relating to a product or activity involving a market risk must be cleared by the ALCO Committee. The ALCO Committee is assisted by the Operational ALCO Committee which meets twice a month and is in charge of the ongoing management of the Bank's medium-term and long-term investments and funding.

Operational risk

The Operational Risk or ORC Committee, meeting quarterly, monitors and manages the Bank's operational risks. Its principal assignments are to define strategies and policies for operational risk management on the basis of group standards and the domestic environment, to monitor internal control procedures and to coordinate action for the security of information. The ORC Committee is assisted by the Operational Coordination Committee, meeting every two months, which brings together the business lines' representatives charged with managing operational risk.

Credit Risk Analysis

Credit risk concerns all situations where there is a possibility that a counterparty may be unable or unwilling to meet obligations to the Bank. Measuring credit risk is thus a matter of assessing the probability of default by a counterparty.

To limit this risk, the Bank naturally only grants credits to customers it believes are unlikely to default and avoids excessive concentration of risks on a particular geographic region, economic sector, individual counterparty or certain types of banking products.

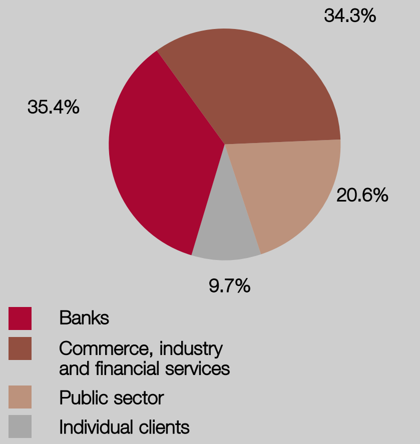
Credit approval is subject to rigorous analysis of the applicant's solvency and the transactions concerned. Credit analysis regarding sovereign risks, banks and corporate customers involves the attribution of an in-house rating similar to those set by international rating agencies.

Based on these ratings and the purposes of loans, the Bank's credit policy sets limits on concentration of risk and periods of exposure.

There are also limits on country exposure based on country ratings and the Bank's own funds.

The Bank monitors commitment closely to ensure that these limits are complied with. It also keeps close track of compliance with repayment schedules and other conditions relating to loans as well as of changes in the counter-parties' ratings.

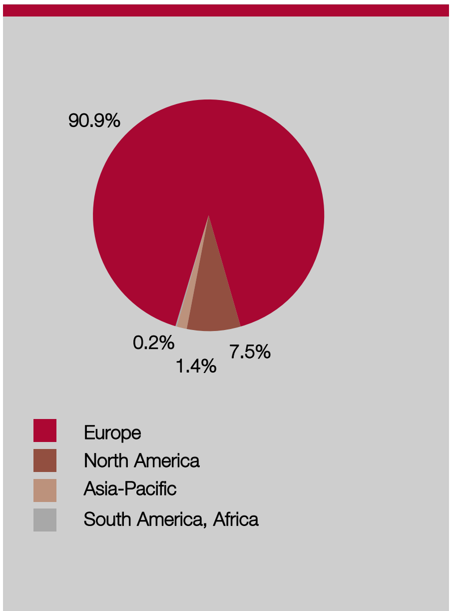
Breakdown of the risk of concentration by sector (global situation) at 31 December 2005 :



Credit risk relating to Global Market instruments is monitored by the Merchant Banking Risk Management unit in accordance with limits set by the Risk Management Policy of Merchant Banking for its own operations and for Commercial Banking commitments relating to Global Market products. In the interest of transparency and consistency, the methods used to calculate weightings (mark to market and add-ons) for credit risk and settlement, money-market and off-balance sheet limits are harmonized throughout the group, as is the related IT support.

The table below shows maximum credit risk exposure for Global Market instruments on the basis of total replacement cost.

The chart below shows the bank's overall exposure by region:



Instruments not included in the trading book (banking book)

Market risks relating to the Bank's structural positions are monitored by the ALM Risk Management unit using dedicated information systems. Present values of positions and own funds are revised at the end of each month on the basis of market conditions. Present values are defined as the current value of expected cash flows in the case of interest-related products and as the market value in the case of equities and investment funds.

The present value of own funds, resulting from the difference between the present value of assets and the present value of liabilities, is the basis for the main measurements of the Bank's exposure to market risks.

OTC derivatives					Total replacement cost
EUR thousands	*< 1 year*	*1 to 5 years*	*> 5 years*	*Total*	
Interest rate derivatives	2,846,741	7,773,164	4,328,069	14,947,974	384,050
Currency derivatives	7,434,277	658,253	160,878	8,253,408	214,832
Equity/index derivatives	68,196	369,427	102,051	539,674	77,666
Total	**10,349,214**	**8,800,844**	**4,590,998**	**23,741,056**	**676,548**

In order to manage country risk and ensure that asset allocation is consistent with the applicable strategy, the volume of operations in a given country is subject to a country limit. This limit reflects the Bank's own rating of the country concerned and the risk/return ratio for different types of investment there. The country limit must at all times be lower than the maximum limit based on the in-house rating and defined in the Risk Management Policy.

Market Risk Analysis

Market risks result from fluctuations in interest rates, exchange rates and stock-market prices. The limits on exposure to these types of risk, defined in the Bank's Risk Management Policy, are designed to safeguard current and future earnings while at the same time allowing efficient management of operations. For the purposes of risk analysis, balance sheet and off-balance sheet positions that concern the trading portfolio are considered separately from those that do not.

Exchange-rate risk on instruments not included in the trading book is hedged. Market risk on structural positions mainly concerns interest-rate and stock-market exposure. Equity portfolios contribute to the efficient diversification of the Bank's assets.

Modified duration is used to measure the sensitivity of the present value of interest-related products to a parallel shift of 1% in yield curves. It depends on the inertia of the nominal interest rate of the aggregate concerned.

Where rates for underlying products are not contractually fixed, as is the case for sight instruments, specific models are used. The present value of interest-related instruments on and off the balance sheet is recalculated based on varied assumptions for immediate non-parallel shifts in yield curves in order to assess the Bank's exposure to the yield curve.

Value analysis is rounded out with the calculation of interest-rate gaps to assess the Bank's nominal exposure at different points along the yield curve. Through the analysis of short-term interest-rate positions affecting income rather than value, this approach is used to measure the exposure of the Bank's net interest income to variations in rates. Dynamic scenarios for interest-rate variations and projections for interest income are used to check that the possible range of variations is not a threat to the Bank's results.

Assessments of risk in terms of both value and income also include quarterly stress simulations based on the widest yield curve variations observed in the previous ten years.

Value at Risk (VaR) provides a statistical view of market risk. It corresponds to the maximum possible loss within a given timeframe and with a given degree of statistical confidence. For financial instruments not included in the trading book, it is calculated over a two-month horizon and 99% statistical confidence. At 31 December 2005, Value at Risk stood at EUR 117.3 million for interest-rate products and EUR 136.9 million for equity portfolios. Total diversified VaR was EUR 151.3 million.

Trading book instruments

The Merchant Banking business line uses historical Value at Risk methods to quantify market risk relating to the trading book operations of the Trading Room in normal market conditions. In addition to the in-house model that considers volatility and correlations to assess market risk, the Merchant Banking Risk Management unit uses modified duration limits and Vega limits to track sensitivity to interest-rate risk and volatility. Since historical VaR methods are by nature based on market data actually observed and may thus underestimate exposure to extremes, the unit also uses EVD (Extreme Value Distribution) methods to better estimate maximum losses with the help of statistical models.

Stress Testing methods, an area for which the Merchant Banking Risk Management unit is the competence centre for the group as a whole, have been extended with historical scenarios of recession and historical financial and IT crises as well as hypothetical scenarios of strong economic expansion, natural disaster, extreme volatility of oil prices and the impact of interest-rate shocks.

Monthly *stress-testing* reports include sensitivity analyses assessing the impact on the market value of positions that could result from linear and non-linear shifts in yield curves, exchange rates and volatility, considered singly and in combination.

Positions included in these risk assessments cover the following Trading Room (Global Markets) activities: *Foreign Exchange, Government Bond Trading, Equity Trading, Treasury Trading, Structured Product Group, Structured Credit Group.*

Positions are also factored into the consolidated VaR calculation of the Merchant Banking Risk Management unit in Brussels. For the sake of transparency and consistency, methods for calculating VaR and limits are harmonised throughout the group, as is IT support.

The Bank applies a uniform set of parameters to monitor Trading Room (Global Markets) market risk: VaR (99% confidence interval, one-day horizon), modified duration for interest-rate sensitivity and the Vega of positions in options for the sensitivity to volatility.

Limits set by type of risk – interest rates, exchange rates, equities and commodities – are based on parameters such as own funds and budgets. Limits are defined in terms of Value at Risk (VaR limits), modified duration (position limits), Vega (volatility limits), and area of business (foreign exchange, money market, fixed income and equities).

Additional limits based on the type of valuation – *Mark to Market* and *Accrued* – also apply.

Operational Risk Analysis

Operational risk concerns the possibility of losses in connection with failings or shortcomings attributable to procedures, staff and in-house systems or outside events. Operational losses may result, for example, from fraud, human error or IT failings in the execution of transactions, or from damage to physical assets.

Audit and Compliance Committee

Fortis Banque Luxembourg has opted for the Advanced Measurement Approach (AMA) under Basel II and to that end deploys a full range of procedures and instruments for the evaluation and management of operational risk.

Each business line and subsidiary thus conducts full reviews of all operational losses, collecting relevant data for analysis and identification of underlying causes. Annual risk self-assessments are also conducted to identify potential risk, review existing control procedures and provide for any appropriate corrections.

Reviews and risk self-assessments provide the basis for modelling the statistical distribution of the Bank's operational losses as well as for the calculation of Operational Value at Risk.

Each business line draws support from a central Operational Risk Management (ORM) unit that co-ordinates and facilitates related initiatives. The unit also coordinates Internal Control.

Audit and Compliance Committee

In accordance with IML Circular 98/143 on internal audit, the Board of Directors decided, at its meeting on 29 October 1998, to establish an Audit Committee. This specialised committee of the Board of Directors is made up of Directors who are not members of the Bank's management or staff. Its task is to assist the Board of Directors in its supervisory role.

The members of the Audit Committee are appointed by the Board of Directors and include the Chairman of the Board of Directors, who heads the Committee, and three other Directors.

In 2005, the Audit Committee met three times, among other things reviewing and updating the Bank's Audit Charter, which had been ratified at the Committee's first meeting in 1998, to allow for changes in the business and best practices. The Charter establishes the internal audit environment and defines the status and mission of Internal Audit. The Committee also adopted Terms of Reference detailing its tasks and responsibilities.

In June 2005, the Board of Directors decided to set up the new Audit and Compliance Committee, bringing together the existing Audit Committee with a Compliance Committee set up pursuant to CSSF circular 04/155 concerning compliance.

The Board of Directors then approved a new Compliance Charter defining procedures for both the group and local entity.

With the adoption of these Charters, the Bank has not only complied with the recommendations of its supervisory authority and generally accepted international standards, but has also favoured the development of an internal audit environment that enhances the security of its operations.

Board of Directors

Board of Directors
The Annual General Meeting of 7 April 2005 renewed the term of office of His Royal Highness Prince Guillaume of Luxembourg.

At the meeting of the Board of Directors on 7 April 2005, Marcel Mart, who had been a Director for 15 years including 12 as Chairman of the Board, announced that he would be passing on the reins with his resignation taking effect on 31 May 2005. Speaking on behalf of share-holders and the Board Gilbert Mittler, Vice-Chairman of the Board and Chief Financial Officer of Fortis, expressed his gratitude and deep respect. The Board voted to confer the title of Honorary Chairman on Marcel Mart with effect from 1 June 2005.

The Board of Directors appointed Jean Meyer Chairman of the Board with effect from 1 June 2005.

The appointment of Jean Meyer as Chairman of the Board of Directors from 1 June 2005 having resulted in the vacancy of the Chairmanship of the Management Board, the Board of Directors appointed Carlo Thill to this position with effect from 1 June 2005.

During the year Paul Wolff, member of the Management Board, resigned with effect from 31 December 2005. The Board of Directors thanked him for his exemplary dedication in the service of the Bank.

Joseph Kinsch, having reached the age limit set by the Board of Directors for its members, was exempted from this regulation to allow him to complete his term of office, which expires in April 2007.

The terms of office of Jean Meyer, Gilbert Mittler, Carlo Thill, Christian Schaack, Camille Fohl and Jacques Godet expire at the Annual General Meeting of 6 April 2006. They are eligible for re-election and will again be standing for office.

The Annual General Meeting of 6 April 2006 will also proceed to the election of new Directors to fill the seats that have become vacant since the Annual General Meeting of 7 April 2005.

Luxembourg, 16 March 2006

The Board of Directors