Annual Report 2006

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

Contents

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

Key Figures

EUR (million)	2006	2005	%
Consolidated accounts (IFRS)			
Balance sheet total	52,120.1	44,154.9	18.0%
Amounts owed to customers	34,336.6	27,910.0	23.0%
Statutory own funds	3,811.8	3,811.6	0.0%
Loans and receivables to customers	20,520.2	16,585.6	23.7%
Net operating income before change in impairments	1,303.6	1,057.3	23.3%
Total operating expenses	-509.0	-470.1	8.3%
Net profit attributable to shareholders	672.2	464.8	44.6%

Ratings (March 2007)	Moody's	Standard & Poor's	Fitch IBCA
Short-term	P-1	A-1+	F1+
Long-term	Aaa	AA-	AA-
Financial strength	B		A/B

Directors and Officers

Board of Directors

Jean Meyer,
Doctor of Law, attorney, Oberanven,
Chairman

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

Michel Wurth,
Economist, Luxembourg,
Director

Joseph Kinsch,
Chairman of the Board of Directors
of ARCELOR MITTAL, 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, Rodange,
Director

Gabriel Di Letizia,
Staff representative, Bergem,
Director

Corinne Ludes,
Staff representative, Dudelange,
Director

Christian Schaack,
Member of the Management Board, Canach,
Director

Joop Feilzer,
Member of the Executive Committee of Fortis, Brussels,
Director (until 6 April 2006)

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 (until 31 December 2006)

Jacques Godet,
General Manager Group Services, Technology Operations &
Process Services of Fortis Banque, Brussels,
Director

Marc Muno,
Staff representative, Mensdorf,
Director

Michel van Pée,
Counsel to the Chairman of Fortis, Brussels,
Director

Claude Heirend,
Staff representative, Junglinster,
Director

Albert Conter,
Staff representative, Arlon,
Director (until 6 April 2006 and as from 30 May 2006)

Board of Directors

Daniël van Woensel,
Honorary Chairman of the Institute of Banking Auditors, Schilde,
Director (as from 6 April 2006)

Pierre Gramegna,
Doctor of Economics, Esch/Alzette,
Director (as from 6 April 2006)

Arno Schleich,
Honorary Chairman of the *Institut des Réviseurs d'Entreprises Luxembourg*, Roodt/Syr,
Director (as from 6 April 2006)

Jean Majerus,
Staff representative, Enscherange,
Director (as from 7 April until 29 May 2006)

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

Jean Meyer, Chairman of the Board of Directors,
Chairman

Michel Wurth, Director,
Member (until 14 September 2006)

Marc-Yves Blanpain, Director,
Member (until 31 December 2006)

Michel van Pée, Director,
Member

Arno Schleich, Director,
Member (as from 14 September 2006)

Daniël van Woensel, Director,
Member (as from 14 September 2006)

External Auditor

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

Management Board

Carlo Thill,
Chairman

Robert Scharfe,
Member

Camille Fohl,
Member

Christian Schaack,
Member (as from 1 January 2007)

Marc Lenert,
Member

Thierry Schuman,
Member

Left to right and top to bottom: Thierry Schuman (Member of the Management Board), Christian Schaack (Member of the Management Board), Marc Lenert (Member of the Management Board), Camille Fohl (Member of the Management Board), Carlo Thill (Chairman of the Management Board) and Robert Scharfe (Member of the Management Board)

Senior Management

Retail Banking Luxembourg

Kik Schneider

Commercial & Private Banking

Jean Everard
Commercial Banking Luxembourg and Grande Région

Jean Pfeiffenschneider
Private Banking Luxembourg

Karin Schintgen

Merchant Banking

Jean Thill
Global Markets

Wolfgang Grohsjean
Corporate & Institutional Banking

Bernard Tancre
Prime Fund Solutions

Anthony Smith-Meyer
Compliance Group Merchant Banking

Tax

Francis Neu

Legal

Patrick Gregorius

ALM/Risk Management

Alfons Kirchen

Audit

Marc Olinger
Internal audit

Jean-Luc Gavray
Fortis Audit Services

Compliance

Marco Heintz

Credits

Pierre Weins

Facility Management

Roby Thill

Information Systems & Technology

Michel Dauphin

Operations

Jean-Marie Moes
Securities Handling

Patrick Lamhene
Payments

Annemarie Jung
Accounts, Customers and Channels

Marc Aguilar
Fortis Management Team Operations

Organisation

Bruno Ranieri

Performance Management, Consolidation and Accounting

Carlo Lessel

Human Resources and Professional Development

Christiane Deckenbrunnen

Company Secretariat

Jean-Louis Margue
Secrétaire Général

Pascal Massard
General Advisor

Management of Main Consolidated Subsidiaries

Fortis Banque Suisse
Yves Stein

Fortis Lease Group
Philippe Delva

SADE (Société Alsacienne de Développement et d’Expansion)
Antoine Gilliot

Internaxx
Robert Glaesener
Manoj Narain

Chairmen's Message

Sound foundations for our future ambitions

The financial year 2006, the first full financial year under the Fortis Banque Luxembourg name, can be considered as outstanding and very promising for the future development of the bank.

A combination of favourable factors including the realisation of capital gains on the sale of equity investments, vigorous economic trends and stock-market rises certainly contributed largely to the record net profit of more than EUR 670 million.

This should however not let us forget that all our bank's businesses made good progress over the year, establishing a sound base for their future ambitions in every field of operation.

We owe this to the alliance of the strengths of the Fortis group with the expertise and know-how of our staff in Luxembourg — a winning combination that has left our bank stronger, more robust and better prepared to tackle the challenges ahead.

A diversified offering to meet the full range of customer needs

Our domestic client base continues to benefit from an up-to-date branch network backed by efficient and user-friendly Web Banking services. Our offering of products and services draws on the advantages and opportunities that go with membership to a leading pan-European financial group, covering all aspects of traditional banking and offering access to the best in insurance, asset management, trust services, lease financing and factoring.

This is certainly the broadest range available on the Luxembourg market, not only for individuals but also for professional and institutional clients.

Through the Fortis network, local businesses have access to the expertise of over 125 Business Centres in some 20 European countries.

Our bank plays an active part in the development of an integrated European economic area through support for the supraregional and international projects of a continuously increasing number of businesses based in our domestic market.

Turning to a more specialised area, our trading room has the most comprehensive offering in Luxembourg as regards both the variety of products we make accessible and the expertise of our multi-lingual staff.

Reflecting the appeal that goes with this special combination of strengths, our bank counts among its clients not only virtually all of Luxembourg's leading businesses but also nearly all the companies represented in Germany's benchmark DAX stock index.

Building social responsibility for the future

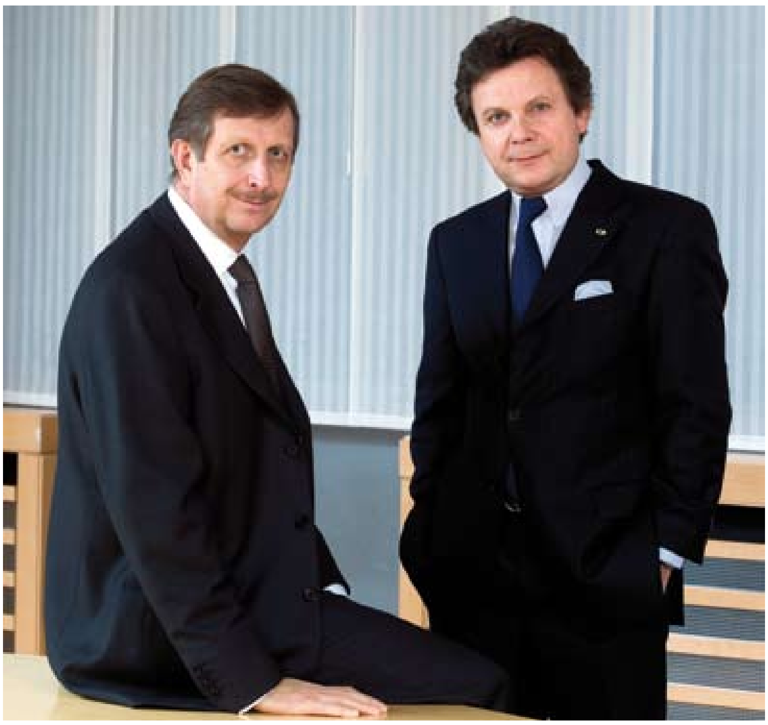
Costs resulting from major projects such as preparations for compliance with Basel II and MiFID are broadly shared across the Fortis group, freeing own funds for investments of our business lines and subsidiaries, as well as to provide our clients with innovative solutions that combine quality with attractive pricing.

The efforts of the bank and its staff members have once again been rewarded with our recognition as the "Best Bank in Luxembourg", a reward that we are proud to acknowledge and which inspires us to continue our efforts.

Following the approach of the Fortis group, our bank is resolutely committed to the principles of sustainability, making socially responsible business development the priority rather than quick profits or growth at any cost.

We believe that this commitment, representing an essential responsibility to coming generations, should be the guiding principle for the future of our bank and its entire staff.

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



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

Management Report of the Board of Directors

Consolidated Management Report

The consolidated financial statements of Fortis Banque Luxembourg (referred to as "the Bank" in what follows) have been for the first time prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Acquisitions, incorporations and sales of subsidiaries during the year had no significant impact on the Bank's net profit attributable to shareholders.

Balance Sheet

The *total balance sheet* amounts to EUR 52.1 billion at 31 December 2006, an increase of 18% compared to the same date in 2005.

On the assets side, the rise is attributable, firstly, to an increase of EUR 3.9 billion in *loans and receivables to credit institutions* following to a financing provided in connection with a financial structuring transaction.

Secondly, there was a rise of EUR 3.9 billion or 23.7% in *loans and receivables to customers*, reflecting the success of the Bank's strategy for expansion in leasing business and favourable trends in professional investment loans and mortgages.

On the liabilities side, the rise in the total balance sheet is attributable to an increase of EUR 1.9 billion in *deposits from credit institutions* and EUR 5.7 billion in *deposits from customers*, the latter resulting from a financial structuring transaction and an increase in deposits from institutional investors. The Bank also increased issuance of US Commercial Paper, leading to a EUR 0.7 billion rise in *debt certificates*.

Shareholders' equity, which includes the *net profit attributable to shareholders* of EUR 672.2 million for the financial year 2006, shows a slight decline from a year earlier. This results from the distribution of the annual dividend and an interim dividend in 2006, combined with a decline in revaluation reserves due to the sale of equity investments and a decline in the market value of fixed income securities.

Profit and Loss Account

Net interest income shows a modest 2.3% rise from the previous year, primarily due to a strong rise in loans and

advances to customers, whereas margins remained under pressure.

Dividends and other investment income practically remains unchanged compared to the previous year at EUR 63.7 million.

The Bank's *share of profit or loss of associates accounted for under the equity method* records a rise of EUR 20.1 million, due in particular to healthy earnings growth at BIP Investment Partners SA and Fortis Investment Management SA.

Improved economic conditions and renewed pace on stock markets led to a rise of EUR 47.5 million or 17.9% in *net fees and commissions*, which benefited, among other things, from the continuing success of insurance products and banking packages with clients.

The *net realised capital gains on investments*, which amount to EUR 162.5 million for the financial year 2006, include significant capital gains resulting from the restructuring of the Fortis group's reinsurance business and the sale of the Bank's interest in Arcelor.

The exchange rate result and the result on the valuation of financial assets and liabilities at fair value are recognised under *other net realised and unrealised gains (losses)*, an item which shows a rise of EUR 26.5 million compared to the previous year.

Net operating income before change in impairments for the financial year 2006 thus comes to EUR 1,303.6 million, a rise of EUR 246.3 million or 23.3% compared to the previous year.

The item *change in impairments* amounts to EUR 42.6 million in 2006 after EUR 41.8 million for the previous year, a level considered as normal given the size of the portfolio.

The increase of EUR 38.9 million or 8.3% in *total operating expenses* is primarily attributable to a rise in staff and other administrative expenses.

Salary increases granted by the Bank, the entry of new companies into the consolidation scope and the recruitment of additional staff to keep step with business expansion led to a rise of EUR 17.6 million or 6.8% in *staff expenses*.

A rise of EUR 19.6 million or 12.4% in *other administrative expenses* mainly reflects the extension of the Bank's business activities and expenses relating to the businesses acquired in the course of the year.

Profit before tax shows a rise of 37.9% from the previous year, but the tax charge of EUR 79.5 million is slightly lower, reflecting an increase in tax-exempt income and investments benefiting from tax incentives.

Net profit attributable to shareholders thus amounts to EUR 672.2 million, which is EUR 207.4 million or 44.6% more than for the previous financial year.

Excluding the large capital gains on the sale of equity investments in 2006, the net profit attributable to shareholders amounts to EUR 531.3 million, which is an increase of 14.3% compared to the previous year.

Financial Risk Management

The Bank's policies relating to the financial risk management are described in detail in note 7 to the consolidated financial statements at 31 December, 2006 of this annual report.

The Bank's Activities

A year after changing its name to Fortis Banque Luxembourg, the Bank is drawing increasing benefits from the added potential that goes with membership to a major international group.

Retail Banking

Relationships with clients in 2006 were marked by the introduction of Luxembourg withholding tax and abolition of wealth tax for physical persons. The Bank ran a major information campaign to this effect featuring, among other things, a series of well-attended client events.

During the first quarter, the Bank launched a new consumer credit offering, *Consume*, rounding out its Daily Banking packages with a flexible *Global Line* credit facility and a *Global Protect* life insurance. The offer also includes a reusable *Réserve Privilège* credit line – which comes with legal assistance and a service line of the Bank – as well as six types of personal loans: vehicle classic/plus, accommodation, healthcare leisure and family events. This new approach to consumer financing provides clients with a broad range of innovative solutions that are nonetheless simple and transparent.

Lending business showed a healthy rise in 2006, with property financing as a main source of momentum.

Close relationships with clients resident in Luxembourg and a focus on products that add real value were rewarded with a 13% rise in subscriptions to Personal Banking packages, a success due in particular to *Global Invest Comfort*, a fund-based discretionary management package for clients wishing to put their savings in expert hands.

The Bank also brought out a steady flow of structured products during the year, with a total of 13 added to the existing line-up.

Turning to professional clients, the year-end was marked by the set up on 1 October of a specialised team to meet the specific needs of professionals and the launch of a targeted offering including special terms and new cover for their third-party liability. Fortis Banque Luxembourg aims to further consolidate business with this client base through a full-service offering leveraging the concept of bancassurance by effective responses to both professional and personal needs. This approach has already been rewarded with a 22% rise in subscriptions to our all-in-one *Global Pro* and *Global Pro+* packages.

Applying the same approach of cross and deep selling, the Bank consolidated and reinforced its daily presence within all targeted customer segments. This approach has been sustained by the set up of a Call Centre, which provides increasingly important support to the Bank's distribution network.

To strengthen its business development, the Bank further developed its Contact Centre for clients and continued progress on electronic management of documents, the shaping of new packages, and more flexible fee structures.

Finally, WebBanking has been upgraded with new functions easing access to an increasingly broad range of banking services.

On-line broker Internaxx posts continued growth

In 2006, Internaxx once again achieved healthy growth in clients and trading volumes, which benefited from targeted advertising on the internet, in the press and on TV in neighbouring and Anglo-Saxon related countries. Internaxx's excellent results in 2006 won renewed market recognition, with Internaxx named Best Offshore Broker for the second year in a row.

During the year, a number of important initiatives were taken to ensure continued improvements in product and service offerings and, by the same token, to consolidate the loyalty of the most active clients. These included the launch of a new version of the derivatives trading platform, circulation of financial information to active clients, and improvement in scope of derivative instruments (additional currencies and forward agreements).

Looking ahead, the priorities for Internaxx will remain the expansion of its client base via targeted campaigns and to add the Asian stock markets. Attention will also be given to client loyalty with a new system of trading alerts and increased information flows.

In bancassurance, the regulatory environment hampered development of life insurance business, particularly unit-linked products for non-residents. Life policies with a significant savings component, offered mainly to local clients, showed a healthy evolution compared to the previous year, confirming the growing client interest in this type of product. Expansion and diversification of the Bank's insurance business were also marked by the successful launch of solutions for professional clients. Through a full range and competitive terms offered in close cooperation with Fortis Luxembourg Assurances, the Bank confirmed its leadership position in bancassurance in Luxembourg.

Throughout the year, the Bank welcomed many clients attending events and celebrations continuing the close, long-standing ties of the Bank and its branches to businesses and communities across Luxembourg.

Commercial and Private Banking

The Fortis group's strategy based on synergies for the joint development of Commercial and Private Banking in the service of businesses and the entrepreneurs behind them has been effective, as results prove.

Closer ties between the two business lines, which naturally retain distinct offerings distributed trough 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.

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 (Société Alsacienne de Développement et d'Expansion - SDR).

Traditionally a mainstay of the Luxembourg economy, in particular through its capacity to offer sophisticated financing on a significant scale, the Bank has consistently confirmed its place as the first bank of choice for Luxembourg business.

The Bank's business strategy, characterised by a proactive approach, close to the client and tailored to his specific and individual needs, is the source of its continuous development as reference bank for professional clients. To best serve the needs of this customer segment, the Bank has developed a broad range of first choice products and services including electronic transactions, specialised advice, support for business start-ups and business successions.

As a natural partner of businesses, the Bank provides its clients with the support they need for the administration, safeguarding and transfer of their personal and professional property, offering advisory assistance as well as a comprehensive range of services with international scope.

In the *Grande Région,* which has developed into an integrated economic area in Europe's heartland, the Bank is now recognised as a reference for financial institutions. Its four Business Centres in Luxembourg, Trier/Saarbrücken, Metz and Strasbourg offer full support to

businesses for their local, supraregional and international activities as active participants in the Fortis group's international network of 125 Business Centres present in 19 countries.

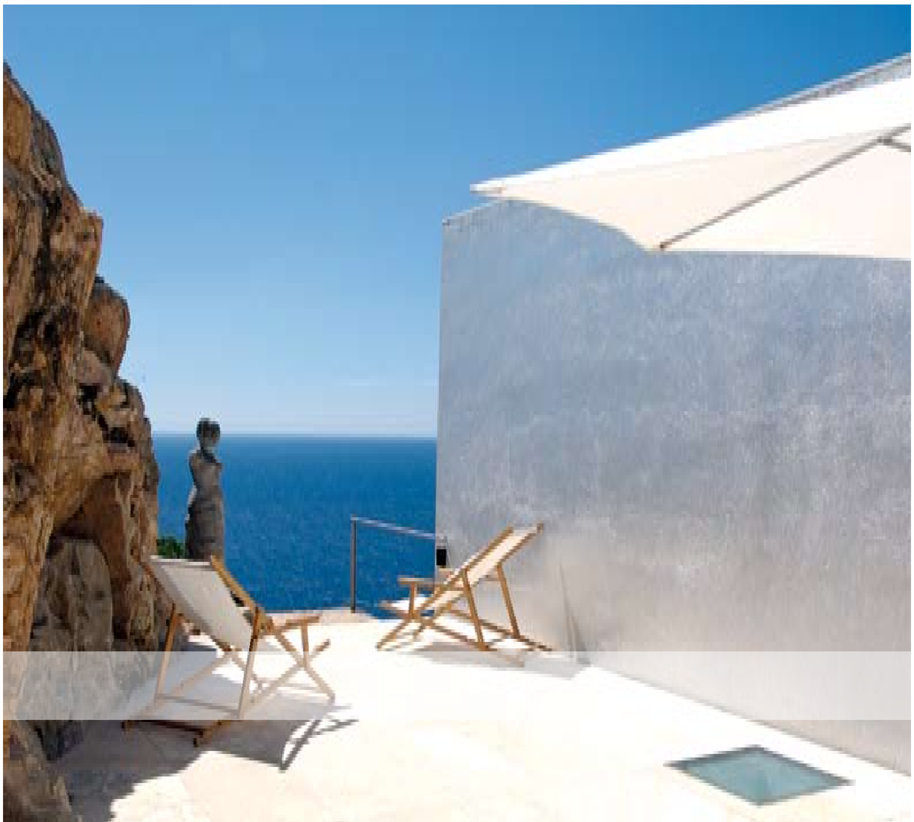
Fortis Lease Group, a wholly-owned subsidiary of Fortis Banque Luxembourg, heading the entire property and equipment leasing businesses of Fortis, has continued to show vigorous momentum. Present in 15 countries and posting assets in excess of EUR 10 billion, it counts among Europe's top four cross-border leasing businesses. In Luxembourg, Fortis Lease Luxembourg is the undisputed leader on the leasing market, offering innovative solutions matching individual needs. An equally client-oriented approach is taken by Fortis Commercial Finance in specialised factoring services, an area where it remains the sole provider in Luxembourg.

Best Bank in Luxembourg, recognition renewed

The Bank's business strategy as well as its results have regularly won recognition in independent awards. In 2006, international business magazines Euromoney and Global Finance once again designated Fortis Banque Luxembourg the Best Bank in Luxembourg.

With the impending implementation of Basel II banking regulations, leasing and factoring are gaining increasing recognition as attractive financing alternatives and thus promise to show strong growth in the years ahead.

SADE (Société Alsacienne de Développement et d'Expansion), a wholly-owned subsidiary of Fortis Banque Luxembourg based in Strasbourg, continues to build success on its traditional role as a source of medium- to long-term loans and equity financing, especially for businesses in Eastern France, where it is an active partner of regional authorities. Close cooperation with Business Centres in Metz and Strasbourg combined with access to an extensive range of banking products enable SADE to offer businesses in its region innovative solutions and the benefits of international reach. In 2006, the SADE group again made the most of its long-standing presence and its varied expertise to post excellent results.



Private Banking

Despite strong world-wide growth, the financial year 2006 was not all plain sailing for investors.

Private Banking Luxembourg

The Bank's private banking operations are structured within the Royal-Monterey Centre in the city of Luxembourg and four Private Banking Centres in Clervaux, Ettelbruck, Luxembourg Gare and Wiltz.

Backing on the Fortis group's international network and the specialised know-how of other Group entities in Luxembourg including Fortis Investments, Fortis Intertrust and Fortis Luxembourg Vie, the Bank offers clients direct access to a broad range of services and tailor-made solutions to match their requirements for the preservation and optimisation of assets and effective estate planning.

Changes in Luxembourg tax regulations, effective since 1 January 2006, did away with wealth tax for Luxembourg residents and introduced a relieving withholding tax on interest income, thus consolidating the attractive Luxembourg tax environment. Capitalising on this, Fortis Banque Luxembourg developed its new *Live in Luxembourg* offering, which provides a full range of personalised services for foreign residents willing to settle in Luxembourg.

The Bank has also upgraded its extensive range of banking services and products with a new discretionary management package, the *Absolute Return* mandate. This investment form targets cautious investors who, on the one hand, seek returns independent from market fluctuations while aiming to benefit from positive market trends and, on the other hand, want to delegate the financial management of their assets and the follow-up of transactions and markets.

Live in Luxembourg

Benefiting from an attractive tax environment, the Bank's Private Banking business line has developed an all-in offering addressing the individual needs of foreign residents planning to settle in Luxembourg. Based upon an in-depth analysis of each client's personal situation, this service provides:

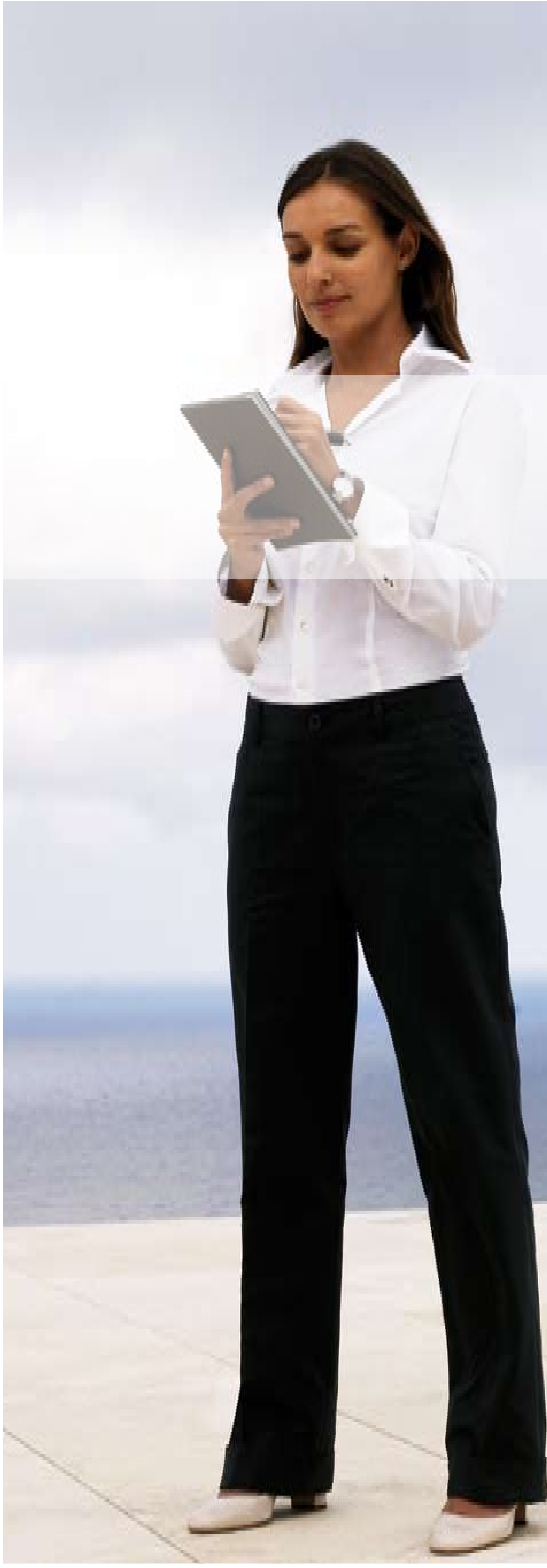
- access to a full range of informations on the Grand Duchy of Luxembourg in general and aspects of life in Luxembourg such as education, healthcare insurance, tax, housing and procedures for recognition of residence status;
- assistance with all administrative procedures regarding the client's settling in the Grand Duchy.

Property investment, buoyed by rising demand, is another area where the Bank offers specialised expertise, in particular through integrated services for purchases of a second residence abroad. In addition to financing on attractive terms, this gives clients the support of Fortis's international network providing access to legal and tax advice from recognised experts in the country they plan to buy in.

Turning to equity investment, in 2006 Fortis Private Banking reached an agreement with Standard & Poor's (S&P) that gives the Bank access to studies and independent recommendations of S&P covering over 500 large international stocks. Meanwhile, the Bank focused its attention on the client portfolio's breakdown by providing the clients with the best in value-added portfolio services to match their individual needs and priorities.

In fund-linked life insurance (Optilife), Private Banking Luxembourg has drawn on the support of Fortis Luxembourg Assurances and Investments specialists to extend its offering to carefully selected third-party funds.

International Private Banking
Fortis Banque (Suisse) SA is a subsidiary specialised in wealth management encompassing sophisticated alternative and private equity investments. It also offers outstanding expertise in financial, legal and tax structuring – areas where it works in close coopera-



tion with the Trust and Corporate Services entities of the Fortis group – as well as in financing activities such as Lombard loans, bank guarantees and financing for residential and investment property.

In 2006, Fortis Banque Suisse posted a 61% rise in earnings and strong growth in assets under management, reflecting the combined benefits of its management performances, consolidation of Dryden Bank Suisse following Fortis's acquisition of the Dryden Wealth Management group, and continuing expansion of its client base.

Merchant Banking

In 2006, Merchant Banking Luxembourg continued to build momentum, drawing strength from Fortis group membership to offer clients optimised solutions and access to a full range of financial services.

Global Markets

In 2006, the main focus of Global Markets activities consisted in further developing Sales activities, especially in German-speaking markets, and the diversification of the Bank's funding. The dedication of the Bank's German-speaking sales teams and effective co-operation with relationship managers in Corporate and Institutional Banking were rewarded with further client gains in Germany. At the same time, the quality of client relationships provided ample scope for cross selling and extension of offerings beyond the usual money-market and exchange-rate products.

Fortis group membership has allowed further diversification of business, illustrated by securitisation services and the launch at the end of 2006 of hedging instruments for Energy and Commodities.

The Structured Products unit has launched around one hundred new structured products for commercial, private and retail clients. Mostly on a protected-principal basis, these offer clients an opportunity to benefit from trends in interest rates, equity markets, energy and commodity prices.

The Bank continues to enjoy diversified funding through issues of Euro Medium-Term Notes, Euro Commercial Paper and US Commercial Paper. In 2006, the increase of the US Commercial Paper programme opened access to new investors in the US, while favourable trends in the world economy and the Bank's good standing led to longer average maturities.

Steady trends in trading and investment business enabled Global Markets to maintain healthy business volumes and earnings. In trading, Global Markets concentrated on flow trading by offering high value-added services to clients. The strategic investment portfolio, with its moderate level of risk exposure, remained a stable contributor to the Bank's earnings despite narrowing credit margins.

Corporate & Investment Banking
The Corporate and Investment Banking (CIB) team continued successful development of German-speaking markets in Germany, Austria and Switzerland. At the end of 2006, the Bank counted 75 counterparties with high profiles on German and international markets.

Mergers and acquisitions among businesses seeking to consolidate their share on the world markets had a decisive impact on financial market conditions in 2006.

The vigorous trends observed on capital markets during the last months before the closing provided scope for the deployment of the full range of products, including in particular bonds and hybrid capital.

The CIB team also succeeded to arrange complex transactions, among them a securitisation of financing commitments with the purchase and pooling of loans followed by a bond issue. In addition, the Bank acted as guarantor for a syndicated loan and for the partial redemption of two listed bond issues for a volume of around EUR 1.2 billion.

In 2006, expansion in German-speaking markets was focused in particular on companies not listed on the German DAX as well as on family-owned companies.

Prime Fund Solutions
Prime Fund Solutions Luxembourg offers depository bank and centralised administration services for all types of investment funds.

Assets on deposit reached a new record of more than EUR 81 billion in 2006, reflecting the Bank's position in a market of vigorous growth.

Indeed, during the period under review, the investment funds sector figured again among the most dynamic sectors of the Luxembourg financial centre. Total assets of Luxembourg funds were up over 20% to top EUR 1,750 billion at the end of the year, making Luxembourg the leading centre for investment funds in Europe and number two worldwide behind the US. This position is gaining added strength with Luxembourg's growing reputation as a centre of excellence in cross-border distribution not only in Europe but worldwide.

Implementation of EU Directives 107/2001 and 108/2001, referred to as UCITS III (UCITS standing for Undertakings for Collective Investment in Transferable Securities), is now nearing completion and within this framework Prime Fund Solutions Luxembourg has won a number of important mandates with continental fund promoters.

Alternative products have also contributed to market growth. These include private equity funds and real-estate funds, but also hedge funds and funds of hedge funds, for which Prime Fund Solutions Luxembourg is a prime service provider.

In 2006, there was a further rise in the number of investment companies registered as *sociétés d'investissement en capital à risque* (SICAR), a form of Luxembourg company particularly well suited to private equity and venture capital. During the year, the Bank, working in close cooperation with Fortis Intertrust, was instrumental in setting up 14 companies of this kind, making it the market leader in the sector.

Hedge funds posted strong growth throughout the year. At the beginning of 2007, new horizons opened with new legislation governing special funds replacing the provisions of the law dated 19 July 1991 concerning collective investment vehicles whose securities are not on public offer. The new rules provide for attractive investment solutions that combine the advantages of regulated products with the flexibility needed for alternative investment strategies.

Prime Fund Solutions is particularly well placed to make the most of strong growth in alternative investments and will be actively pursing opportunities in this area while at the same time consolidating its leading position as a service provider for traditional funds.

Operations

Securities handling
In 2006, extensive technical and organisational upgrades were implemented in order to optimise synergies with the Fortis group, reduce risk and enhance the overall efficiency of securities transaction processing in the Benelux area.

A new securities processing platform was thus deployed for more efficient, user-friendly services to all the Bank's non-institutional clients.

Since January 2006, all sites have been equipped to deal with the requirements of the new Luxembourg withholding tax.

Business volumes were on the rise in several segments during the year, with investment funds and custody services the main focus of growth. Standardisation of processes and strict control procedures kept risk under control as volumes increased.

In physical securities handling, the decline in volumes associated with dematerialisation in most European countries and with the Europe-wide introduction of withholding tax was offset by the integration of business flows from the Fortis group. Turning to sub-depository services for institutional clients, the shift in business to investment fund deposits has led to a steep rise in assets under management.

Payments

High processing volumes and market changes made 2006 a busy year in payments.

This concerned in particular preparations for the Single European Payments Area (SEPA). The first stage is scheduled for the beginning of 2008 and will introduce, alongside the existing domestic payment systems, new pan-European payment products doing away with distinctions between local and cross-border transactions, and providing for harmonisation of execution time and geographical reach. The target date for a complete switch to exclusive use of the pan-European system is 2010.

The Bank is naturally an active participant in the process, and in October 2006 took the first step provided for in the Luxembourg financial community's roadmap for SEPA, pulling out of Luxembourg's domestic clearing system Lipsnet and transferring operations to the European Banking Association's Step 2 platforms.

In this context, Luxembourg institutions have also adopted IBAN (International

Bank Account Numbers) / BIC (Bank Identifier Codes) for all cross-border transactions from 2007 on.

To deal effectively with these fundamental changes, the Bank has made an active contribution to the development of the Fortis group's Payments Shared Service Centre. In addition to a shared processing platform, this involves the deployment of a common product line-up and the development of a harmonised services offering that ensures the complete confidentiality of transactions.

Finally, new standards of transparency in worldwide payments are now required under the recently adopted European Regulation 1781/2006 for the fight against terrorism and money laundering.

In this context, it is worth noting that electronic payments accounts for over 85% of executed transactions.

Accounts, Customers and Channels

Against a backdrop of uninterrupted change in anti-money laundering legislation, the Bank has continued to invest in staff and technical resources to ensure the full security of client transactions.

As regards payment cards, this has involved automation of most related instructions through close cooperation with Cetrel (*Centre de traitement électronique luxembourgeois*), to optimise service to internal and external clients.

The adoption in January 2006 of an amendment to Luxembourg legislation on withholding tax also required significant new developments in information systems.

Information Systems & Technology

In 2006, as in previous years, the Bank continued development of its information systems to better meet client needs, enhance the efficiency of business processes, and keep costs and operating risk under control while at the same time meeting compliance requirements to the full.

This included the deployment of a new application for the entry of transfers, extending hours and reorganising processing to allow operational continuity on certain bank holidays and thus better meet the requirements of institutional clients.

In the area of compliance, system developments needed to deal with the switch to International Financial Reporting Standards (IFRS) were completed and the quality and scope of client data were upgraded to reinforce the prevention of money laundering. System development to back Basel II compliance moved into the final phase and the Bank took the first steps towards compliance with the EU Markets in Financial Instruments Directive (MiFID).

Turning to information system infrastructure, the Bank continued its investments to keep pace with the demands of clients and the business environment in terms of availability, performance and security. This involved completion of the deployment of XBOW workstations running under Windows XP and equipped with a new system for the control of access to applications on the basis of individual staff functions. These workstations, now standard equipment, ease deployment of new applications, offer greater accessibility, favour more effective cooperation among staff members and reduces the workstations maintenance costs.

Finally, the Bank's IT teams have made a significant contribution to the Fortis CityPlan programme aimed at harmonising and optimising information systems in each of the group's businesses over the years ahead.

Human Resources

At 31 December 2006, the Bank's consolidated staff numbers show a rise of 7% for 2006 from 3,377 to 3,619 employees. This reflects significant growth in the activities of the Bank and its subsidiaries.

The expansion of the Bank's subsidiary Fortis Lease Group SA into new countries and the acquisition of several new companies explains a rise of 29% in its headcount to 746 at the end of 2006.

Similarly, Fortis Banque (Suisse) SA continued recruitment to keep step with business development and staff numbers were up from 236 at the end of 2005 to 278 at the end of 2006.

In Luxembourg, staff numbers at Fortis Banque Luxembourg SA were up from 2,482 at the end of 2005 to 2,523 at the end of 2006 after holding steady in the three previous years.

The Bank was very active on the labour market during the year, recruiting 249 new staff members. In this context, it is also worth noting that numerous staff members have taken advantage of career opportunities within the Fortis group at other entities based in both Luxembourg and other parts of Europe.

Fortis Banque Luxembourg has always placed special emphasis on training and staff development, and this was again the case in 2006 when the Human Resource department deployed a wide-ranging programme to define and assess competencies and, by the same token, better identify the training and development needs of all staff members.

During the year, the Bank also participated in Fortis's International Management Traineeships programme for young graduates with master's degrees in economics, law and finances. Traineeships lasting 18 months provide participants with opportunities to better understand the activities and key businesses of the Bank and to round up their education with internships and eventually by sojourns abroad. This is part of the Bank's broader move to enhance its appeal for young labour-market entrants through structures that are suited to their needs and a source of motivation.

A fundament principle of the Bank's human resource policies is to offer staff members a healthy, attractive working environment reinforcing motivation. To this end, varied options are also provided to allow a healthy balance between work and family life with the support of a day-care facility for staff members' children as well as openings for flexible working hours, part-time work, accumulation of leave entitlements and provision for extended leave.

Concern for staff health and well-being is a natural priority, as illustrated by a new addition to available infrastructure with the inauguration of an in-house fitness centre as well as by the launch of an antismoking campaign.

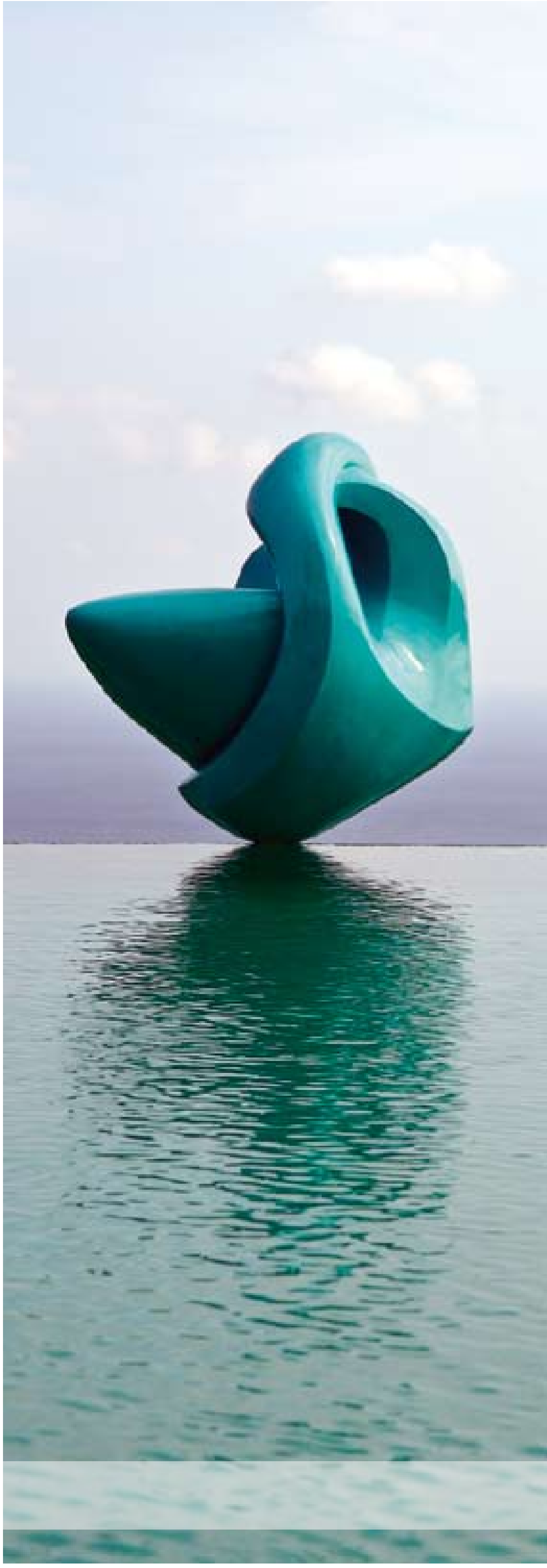
Finally, a large number of human-resource initiatives were taken in association with staff representatives, whose dedication again won deserved recognition throughout the Bank. As in previous years, these initiatives were undertaken in a spirit of frank and fruitful cooperation that reflects a shared commitment to the success of the Bank and the progress of all staff members.

Fortis Foundation Luxembourg

In its first year, the new foundation inaugurated 15 March 2006 provided support for five socially engaged associations in which Fortis staff members in Luxembourg are personally involved.

These associations offer assistance for disadvantaged children in India, Gambia and Luxembourg, for children suffering from cancer and for people facing special difficulties in social and labour-market integration.

Through the Fortis Foudation Luxembourg and the Alphonse Weicker Foundation, as well as in a wide variety of initiatives in favour of the arts and the community, Fortis Banque Luxembourg continues to demonstrate its commitment to good corporate citizenship as a business that not only has its roots in the economy of Luxembourg, but is also deeply attached to the cultural, sporting and social life of the country.



Unconsolidated Management Report

This report comments on the unconsolidated financial information of the Fortis Banque Luxembourg parent company prepared in accordance with Luxembourg Generally Accepted Accounting Principles.

Balance Sheet

The *unconsolidated total balance sheet* at 31 December 2006 amounts to EUR 46.9 billion, showing a rise of 28.7% from the previous year. This increase is attributable amongst others to the combined impact of a deposit of funds and securities lending in connection with a financial structuring transaction.

Loans and advances to customers show a substantial 30.3% rise. This reflects both an increase in mortgages and investment loans, due in turn to favourable trends in the business environment, and additional loans granted as part of Fortis's strategy of expanding leasing business. Leasing business is handled by Fortis Lease Group SA, a 100% subsidiary of the Bank based in Luxembourg.

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

Own Funds

Subscribed capital at 31 December 2006 amounted to EUR 350 million, represented by 13,732,035 shares.

If the Annual General Meeting of 5 April 2007 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 2.5 billion at 1 January 2007.

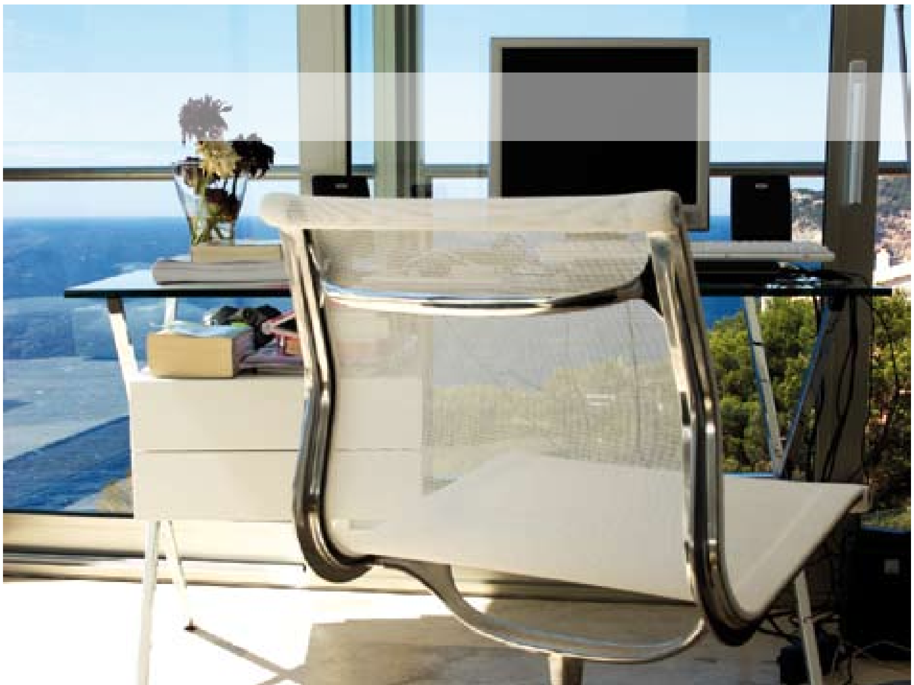
Acquisition and Holding of Own Shares

In accordance with Article 49-3c) of the Law on Commercial Companies, the Bank, as authorised by its majority shareholder, acquired 1,988 own shares which it then sold in full to Fortis Bank SA, Brussels. At 31 December 2006, the Bank held none of its own shares.

Profit and Allocation of Profit

For 2006, the sum of *net interest income, income from securities, net commission income* and *profit on financial operations* earned by the Bank amounts to EUR 760.4 million. Of particular note is a significant decline in *income from securities*, down from EUR 168.8 million in 2005 to EUR 109.7 million in 2006, due in large part to the payment of an exceptional dividend by one of the Bank's subsidiaries as part of restructuring in 2005. *Net interest income* is also down 3.9% from the previous year, a decline due in particular to the fact that remuneration on certain products is paid in the form of fees and commissions starting in 2006. In contrast, *net commission income* continued its positive evolution of previous years, reflecting the good performance of equity markets in 2006, a rise in assets under management, and the success of the Bank's offering of insurance products and banking packages.

Other operating income coming to EUR 250.4 million for the year include a substantial capital gain realised in connection with the restructuring of the Fortis group's reinsurance business as well as the sale of the Bank's interest in Arcelor. In 2005, this heading included amongst others capital gains generated by the reorganisation of the Fortis group's leasing and factoring business.



General administrative expense rose from EUR 284.7 million on 31 December 2005 to EUR 289.4 million on 31 December 2006. *Staff costs* rose 3.3% during the year, due in particular to automatic increases under collective labour agreements and indexation of salaries. The average number of employees remains virtually steady compared with 2005. *Other administrative expense* edged down 1% from 2005, reflecting efforts to contain costs initiated already in previous years. *Value adjustments in respect of tangible and intangible assets* declined significantly by EUR 25.7 million in the year to 31 December 2006, reflecting the completion of depreciation of certain intangible assets at year-end 2005 and technical equipment at the Kirchberg building at the end of June 2005.

Human Resources at Fortis Banque Luxembourg

At 31 December 2006 the Bank counted 2,523 employees, of whom 1,348 were men (53.43%) and 1,175 were women (46.57%). The Bank thus remains one of the top two employers in the Luxembourg banking industry. In 2006, 249 new employees were recruited. During the year, the proportion of employees working part time rose from 17.08% to 17.88% to represent 451 people in all.

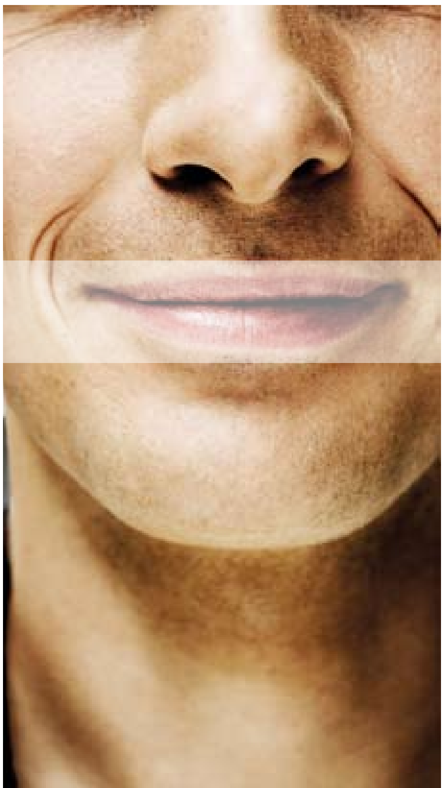
Over 25 nationalities are represented in the Bank's workforce, with origins breaking down as follows:

Luxembourg	51.5%
France	19.5%
Belgium	16.9%
Other EU countries	11.5%
Countries outside the EU	0.6%

The average age is 39.68 and average seniority 14.35 years.

Pre-tax results on ordinary activities rose 17.7% to EUR 630.1 million. *Tax on results on ordinary activities*, however, declined by EUR 17.1 million to EUR 49.1 million. This 25.9% decrease reflects a significant rise in non-taxable capital gains and other tax-exempt income relating to specialised financial structures. The latter results in a rise in taxes paid directly by the financing vehicles established in Luxembourg.

Finally, the Bank's *unconsolidated net profit* amounts to EUR 580 million, showing a 23.9% rise from the previous year. Distributable profit for 2006, including profit carried forward from the previous year, thus amounts to EUR 580.1 million.



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

Dividend of EUR 31.50 on 13,732,035 shares	EUR 432,559,102.50
Statutory allocations	EUR 1,302,307.47
Allocation to free reserves	EUR 108,600,000.00
Allocation to the wealth tax reserve	EUR 37,500,000.00
Retained earnings	EUR 123,682.03
Total	**EUR 580,085,092.00**

If these proposals are adopted, a final dividend in a gross amount of EUR 6 per share will be payable to shareholders on presentation of coupon no. 27. On 20 November 2006, the Bank paid an interim dividend of EUR 25.50 per share on presentation of coupon no. 26.

Performances reported by the Bank's businesses since the close of the 2006 financial year remain favourable.

Financial Risk Management

The policy for financial risk management as explained in detail in note 7 to the consolidated accounts at 31 December 2006 in the present annual report applies also to the unconsolidated risks.

Audit and Compliance Committee

The new Audit and Compliance Committee was set up in June 2005, bringing together the existing Audit Committee with a Compliance Committee set up pursuant to CSSF circular

04/155. It is composed of Directors who are not members of the Bank's management or staff, and whose task is to assist the Board of Directors in its supervisory role. The members of the Audit and Compliance 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 2006, the Audit and Compliance Committee met four times.

The Committee's brief is defined by terms of reference detailing its tasks and responsibilities for audits, an Audit Charter establishing the internal audit environment and setting out the status and mission of internal auditors and a Compliance Charter defining procedures for both the group and the local entity. With the adoption of these references and 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 and reflects best practices in this area.

Board of Directors

The Annual General Meeting of 6 April 2006 renewed the terms of office of Jean Meyer, Gilbert Mittler, Carlo Thill, Christian Schaack, Camille Fohl and Jacques Godet.

At the same meeting, shareholders appointed as Directors Daniël Van Woensel, Honorary Chairman of the Institute of Banking Auditors (replacing Joop Feilzer), Pierre Gramegna, Doctor of Economics (replacing Paul Wolff), and Arno Schleich, Honorary Chairman of the *Institut des Réviseurs d'Entreprises Luxembourg* (replacing Marcel Mart).

During the year, Marc-Yves Blanpain resigned as Director with effect from 31 December 2006. The Board of Directors expressed its gratitude for his commitment to the Bank.

The terms of office of Joseph Kinsch, Michel Wurth, Daniël Van Woensel and Michel van Pée expire at the General Meeting of Shareholders on 5 April 2007. Joseph Kinsch, Michel Wurth and Daniël Van Woensel are eligible for re-election and will again be standing for office.

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

Luxembourg, 15 March 2007
The Board of Directors