Annual Report 2007

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 millions	2007	2006	%
Consolidated accounts (IFRS)			
Balance sheet total	60,030.6	52,120.1	15.2%
Amounts owed to customers	33,322.9	34,336.6	-2.9%
Statutory own funds	3,804.3	3,811.8	-0.2%
Loans and receivables to customers	26,144.1	20,520.2	27.4%
Net operating income before change in impairments	1,365.6	1,303.6	4.8%
Total operating expenses	-559.4	-509.0	9.9%
Net profit attributable to shareholders	676.8	672.2	0.7%

	Moody's	Standard & Poor’s	Fitch IBCA
Ratings (February 2008)			
Short-term	P-1	A-1+	F1+
Long-term	Aa2	AA-	AA-

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, Sandweiler,
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

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

Camille Fohl,
Member of the Executive Committee of Fortis
as from 1 January 2008, Garnich,
Director

Jacques Godet,
Chief Information Officer of Fortis, Brussels,
Director

Marc Muno,
Staff representative, Mensdorf,
Director

Michel van Pée,
Counsel to the Chairman of Fortis, Brussels,
Director (until 5 April 2007)

Claude Heirend,
Staff representative, Junglinster,
Director

Albert Conter,
Staff representative, Arlon,
Director

Daniël van Woensel,
Doctor of Law, Schilde,
Director

Pierre Gramegna,
Lawyer and Economist, Esch/Alzette,
Director

Arno Schleich,
Honorary Chairman of the Institut des Réviseurs
d'Entreprises Luxembourg, Roodt/Syr,
Director

Michel de Hemptinne,
Chief Facility and Purchasing Officer of Fortis, Brussels,
Director (as from 5 April 2007)

Bernard Frenay,
Deputy Chief Financial Officer of Fortis, Brussels,
Director (as from 5 April 2007)

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 van Pée, Director,
Member (until 13 March 2007)

Arno Schleich, Director,
Member

Daniël van Woensel, Director,
Member

Michel de Hemptinne, Director,
Member (as from 24 April 2007)

External Auditor

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

Management Board

Carlo Thill,
Chairman

Robert Scharfe,
Member

Camille Fohl,
Member (until 31 December 2007)

Christian Schaack,
Member

Marc Lenert,
Member

Thierry Schuman,
Member

Yves Stein,
Member (as from 1 January 2008)

Left to right: Marc Lenert (Member of the Management Board), Christian Schaack (Member of the Management Board), Thierry Schuman (Member of the Management Board), Robert Scharfe (Member of the Management Board), Yves Stein (Member of the Management Board), Carlo Thill (Chairman of the Management Board)

Senior Management

Retail Banking Luxembourg

Kik Schneider

Commercial and 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 and Public Banking

Bernard Tancré
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 Lamhène
Payments

Annemarie Jung
Accounts, Customers and Channels

Marc Aguilar
Fortis Payments Services, Group 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 Subsidiaires

Fortis Banque Suisse
Bas Rijke

Fortis Lease Group
Claude Crespin

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

Internaxx
Robert Glaesener

Fortis Banque Monaco
Jean Danckaert

Chairmen’s Message

Robust fundamentals

Our bank's financial results for 2007 reflect healthy rises in income generated by all business lines, bearing out the strengths of our positions as the leader on our domestic market. The innovative approach pursued in the Grande Région over the past decade also continued to yield benefits.

Exceptional, non-recurrent income was significantly lower than in 2006. Moreover, while we did not ourselves take positions with sub-prime exposure, our bank suffered, like many others, from the impact of the crisis on financial markets and the general business environment. As a result, net earnings were lower for the parent company alone; at consolidated level, they were equal to the previous year's record results.

Fortis Banque Luxembourg nonetheless continues to make steady progress, drawing strength from the commitment and energy of its staff members combined with the reach and resources that go with membership of one of Europe's pre-eminent financial groups.

New opportunities

The joint bid for ABN Amro initiated by Fortis in association with Royal Bank of Scotland and Banco Santander has been universally recognized as a major event for the financial sector in Europe and beyond.

Carried out with the assurance that goes with a proactive approach to a rapidly changing and increasingly open business environment, the merger – now taking concrete shape at operational level – will also have a tangible impact in Luxembourg, where it spells positive structural change.

Fortis will thus offer an even broader, more comprehensive range of services and opportunities to customers in Luxembourg, reinforcing positions in Private Banking and Asset Management in particular.

In support, the management and staff of Fortis Banque Luxembourg will be doing all they can to offer their new colleagues from ABN Amro prospects that consolidate their commitment – enabling them to continue serving their customers in a new context, but one that remains nonetheless marked by a longstanding dedication to customer satisfaction as the overriding priority.

Laying foundations for the future

Our bank is not, however, narrowly focused on financial results and short-term rewards for customers and staff members. In many areas our horizons are much wider.

The scope of our responsibilities is changing as we move ahead in an increasingly global environment, making us aware of the more fundamental, longer-term aspects of our mission.

Against this backdrop we face challenges that include:
- building trust with customers within a framework recently redefined by the European Union's Markets in Financial Instruments Directive
- enabling staff members to strike a better balance between an interesting but demanding career and a harmonious family life
- combining near-term financial results with concern for the long-term demands and consequences of investment in real estate and technology.

We are taking up these challenges with enthusiasm and much has already been achieved, as reflected in official recognition that includes the title of Best Bank in Luxembourg and the Luxembourg Health Ministry's prize for health at the workplace. Our bank and all our staff members have every reason to be proud and, by the same token, to work for continued progress and new achievements.

Carlo Thill
Chairman of the Management Board

Jean Meyer
Chairman of the Board of Directors

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

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) were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Balance Sheet

The *balance sheet total* amounts to EUR 60 billion at 31 December 2007, showing a rise of 15.2% from the same date in 2007.

On the assets side, the rise is attributable, firstly, to an increase of EUR 5.6 billion or 27.4% 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. Secondly, there was a rise of EUR 8.8 billion in *cash and cash equivalents* resulting from an increase in funds placed with the parent company.

Loans and receivables to credit institutions declined by EUR 2.5 billion following the maturing of a financial structuring transaction in the course of the year.

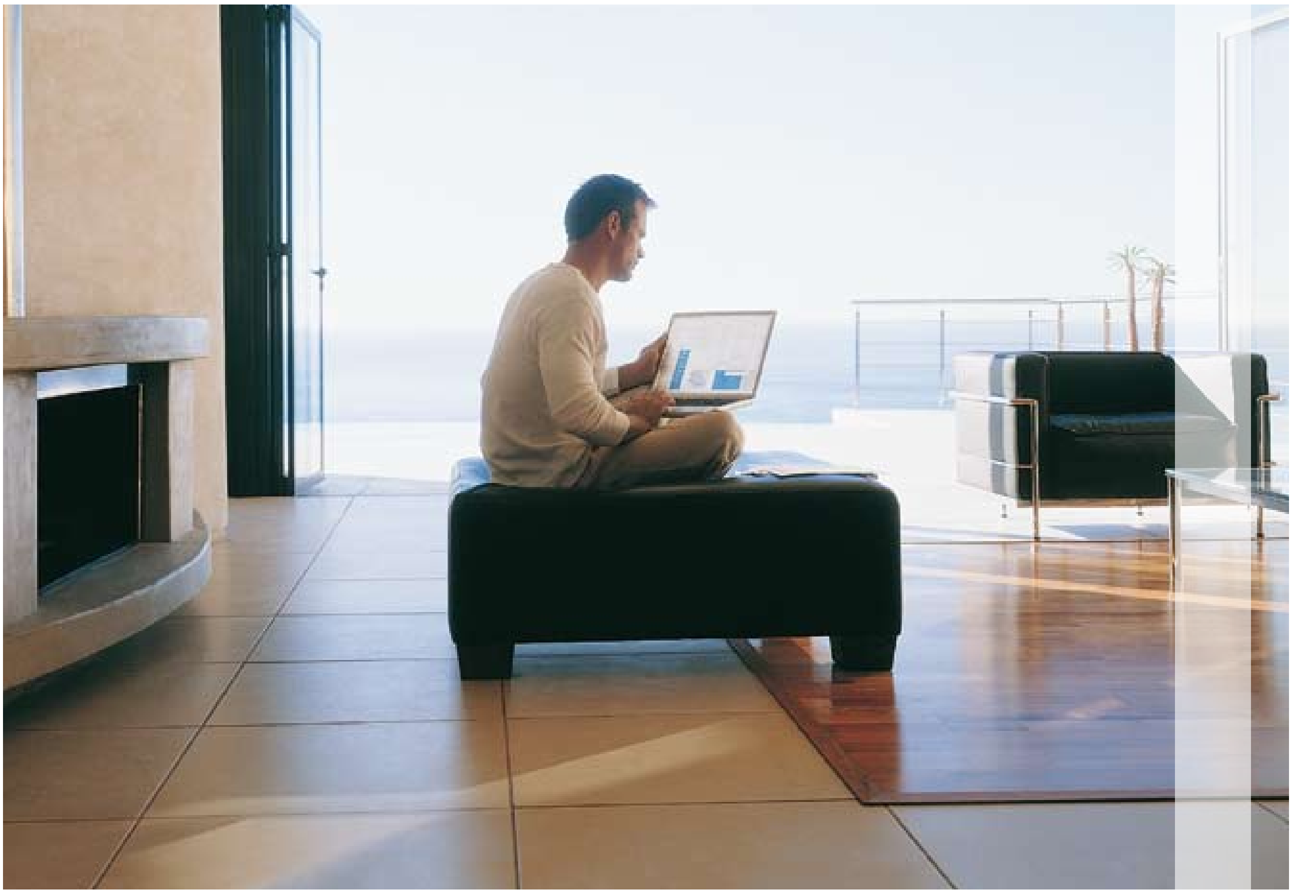
To optimise current and future interest margins, the bank sold substantial bond holdings, generating a 33.6% decline in *financial assets available for sale*.

On the liabilities side, the rise in the balance sheet total is mainly attributable to an increase of EUR 7.3 billion in *deposits from credit institutions*, reflecting an increase in repo transactions with the parent company.

The maturing of a financial structuring transaction led to a decline of EUR 1.4 billion or 5.4% in *deposits from customers*.

The short sale of securities received under a repurchase agreement relating to a financial restructuring transaction led to an increase of EUR 1.4 billion in *other liabilities*.

Shareholders’ equity amounts to EUR 4,020.3 million, including the *net profit attributable to shareholders* of EUR 676.8 million for the 2007 financial year.



Profit and Loss Account

Net interest income was up 3.7% from the previous year, primarily due to a strong rise in loans and advances.

Dividends and other investment income rose 8.5% to EUR 69.1 million.

The Bank's share in the results of *associates accounted for under the equity method* showed a moderate decline of EUR 2.8 million, due to the inclusion of Postbank Ireland Ltd, still at the start-up stage. In contrast, the results of BIP Investment Partners SA and Fortis Investment Management SA were on a favourable track.

Economic growth combined with high trading volumes on stock markets led to a rise of EUR 33 million or 10.6% in *net fees and commissions*. This item benefited, among other things, from growth in assets under management, the continuing success of insurance products and banking packages with clients. Business growth recorded by the Bank's Swiss subsidiary and leasing entities also contributed, but financial market turbulence had an adverse impact on intermediation fees for trading activities.

Net realised capital gains on investments came to EUR 203.3 million. This includes a number of sizeable gains, in particular in connection with the sale of the Bank's interest in Fortis Bank C.I. Ltd.

The results of the measurement of financial assets and liabilities at fair value are recognised under *other realised and unrealised gains (losses)*. This item showed a decline of EUR 46.5 million, principally reflecting the non-recurring gains recorded in 2006 and a marked decline in business relating to derivatives.

Net banking income for the 2007 financial year thus came to EUR 1,365.6 million, showing a rise of EUR 62 million or 4.8% from the previous year.

Net provisions for *impairment* of financial assets amounted to EUR 54.7 million compared with EUR 42.6 million in 2006. The rise reflects the combined impact of changes in loan provisioning methods and impairment of some financial assets adversely affected by market volatility.

An increase of EUR 50.4 million or 9.9% *in total operating expenses* is primarily attributable to a rise in staff costs and other administrative expenses.

Salary increases granted by the Bank, the acquisition and integration of new companies and the recruitment of additional staff to back business growth led to a rise of EUR 32.4 million or 11.7% in *staff expenses*.

A rise of EUR 10.6 million or 6% 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, particularly in the leasing sector.

Profit before tax was at the same level as in the previous year, but the tax charge of EUR 73.4 million was slightly lower, reflecting recoveries of surplus tax provisions combined with a rise in tax-exempt income and investments benefiting from tax incentives.

Net profit attributable to shareholders thus amounted to EUR 676.8 million – a rise of EUR 4.6 million or 0.7% compared to the previous financial year.

Trends in the Bank's business have remained favourable since the close of the financial year, but financial market volatility continued to have an impact on the valuation of some of the Bank's portfolios.

Risk Management

The Bank's risk-management policies are described in detail in note 6 to the consolidated financial statements at 31 December 2007.

In view of the turbulence resulting from the crisis in the US mortgage market and which affected financial markets, it is important to note that the Bank does not have any sub-prime exposure and has been particularly attentive to the management of credit risks and liquidity, in keeping with the Bank's traditional caution.

The Bank's Activities

Despite the turbulence that made for market uncertainty at the end of the year, all the Bank's businesses made positive contributions to the sound performance recorded in the 2007 financial year.

The year was marked by the implementation of the Markets in Financial Instruments Directive (MiFID), which is designed to reinforce safeguards for investors and favour increased competition among providers of financial services. All the necessary steps were taken to ensure the full compliance of the Bank's various businesses and departments with the new regulations.

While this represented a significant technical and operational challenge, MiFID has also been an opportunity for the Bank to work towards an even closer match with customers' needs through a general review of ways to effectively safeguard their assets without compromising investment goals and targets for returns.

Finally, a main highlight of the year was the successful tender offer for ABN Amro launched by a consortium made up Royal Bank of Scotland, Santander and Fortis, as well as the capital increase Fortis made in this context. This will be followed by integration of businesses in the course of 2008, which means attractive prospects for development in Luxembourg, particularly in Private Banking, Asset Management and fund administration.

Retail Banking

Pursuing a resolutely client-oriented approach with a high value-added offering, in 2007 Retail Banking Luxembourg further extended its line-up of banking packages to better match specific needs in different segments.

Rewarding effective ties to clients, Personal Banking packages showed a healthy overall rise of 11%, with the *Invest* line-up, particularly *Global Invest Comfort*, providing much of the momentum. Commitment to close customer relationships reflects the Bank's goal of being Luxembourg's leading Personal Banker for both residents and non-residents.

Offerings have also been adapted to meet the specific needs of the cross-border commuters working in Luxembourg, with a targeted range of insurance and investment products as well as daily banking services. Successful promotion of dedicated products and services in this client group contributed to healthy growth in Daily Banking packages with *Global Connect* and *Global Club Gold* doing particularly well. Results were also excellent for the *Web Credit Card* associated with these packages.

Continuing commitment to environmental protection

Fortis Banque Luxembourg takes a responsible approach to environmental protection with concrete steps to limit the impact of its business. These are backed by in-depth reviews of policies and processes to ensure compliance with the principles of sustainability.

It has thus launched an awareness campaign encouraging staff members to reduce consumption of energy and office supplies, and to optimise their transport options. Similarly, it has opted for so-called green electricity supplies, and renovation of the Bank’s real estate is conducted in accordance with sustainable construction guidelines. This helps meet the ambitious targets Fortis has set itself to reduce its footprint on climate change.

The Bank and its branches are also proud to have been awarded the *SuperDrecksKëscht® fir Betrieber* label attesting environment-friendly waste management.

Similarly, expatriates based in Luxembourg showed growing interest in the Bank's dedicated offering, which includes not only a broad range of banking products and services but also a selection of attractively priced consumer services made available through partnerships with providers.

The young client programme offering zero-fee packages proved an outstanding success in 2007. They include the 12-to-17 account for first-time users of banking services and the 18-to-24 account for young people starting out in professional life or continuing their education in Luxembourg or another country. This also provides for a rent bond free of charge.

Global Pro and *Global Pro+* packages for professionals continued to make good progress over the year. The Global Pro offering has been rounded out with a Visa Business card for business entities and a MasterCard Gold card for individuals. The Bank has set up specialised units to underpin relationships with independent professionals and small businesses, providing customised responses to their personal and professional needs. This will further consolidate its leadership in the sector.

On the increasingly competitive credit market, the Bank continued to score gains, with business driven by real-estate and investment loans. In the consumer loan sector, the Luxembourg Auto Show was the occasion for the launch of a special offering at low rates for purchases of hybrid vehicles, underscoring the Bank's commitment to the promotion of sustainable development.

Backed by its Call Centre, which offers access to solutions that combine innovation, simplicity and transparency, the Bank has consolidated and extended its day-to-day relationships with its various customer segments. The Call Centre, which is a key part of the Bank's distribution network, has got off to a good start with its first moves into active selling.

At the same time, the Bank's Web Banking service offers quick, secure access to all products and services and is a prime channel for client transactions. In 2007, it achieved

Internaxx named Best Offshore Broker 2007

Online brokerage Internaxx, a subsidiary of Fortis Banque Luxembourg, once again achieved healthy growth in 2007, steadily expanding its client base for added pace in business flows.

Significant trends during the year included a high proportion of new clients from English-speaking countries as well as strong performances in derivatives, which stood out from other segments of the brokerage's extensive offering. Excellent results brought market recognition, with Internaxx named Best Offshore Broker 2007.

Internaxx is the first brokerage in Europe to offer individual investors affordable real-time access to markets in the Asia-Pacific area including Hong Kong, Singapore and Australia. This enables them to make the most of the opportunities for robust market growth with the support of online price data, market comment and information, technical analysis and consensus assessments.

healthy rises in terms of both new subscribers and transaction volumes.

Drawing strength from a full, innovative offering in close cooperation with Fortis Luxembourg Assurances, the Bank has steadily consolidated its number-one place for bancassurance in Luxembourg. In 2007, growth was particularly strong for life insurance products with a significant savings component, continuing the trend already observed in the previous year.

Continuing the sweeping drive to upgrade client reception facilities, the Bonnevoie branch has been fully refurbished in accordance with the principles of sustainable construction, meeting the highest ecological standards as regards both the materials used and energy savings.

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

Commercial and Private Banking

The group's strategy of developing synergies between Commercial and Private Banking, combining services to businesses and their leaders, once again proved its effectiveness with strong results consolidating the progress already achieved.

Here the international reach of Fortis plays an important role, enabling the Bank to combine global strategies and local responses with the support of a full range of specialised expertise for effective financial services and solutions.

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).

The excellent results recorded in 2007 reward a proactive approach that centres on close relationships with clients and attention to their needs. The Bank thus confirmed its place as Luxembourg's leading bank for professional clients and, by the same token, a mainstay of the country's economic development.

With its four Business Centres in Luxembourg, Trier/Saarbrücken, Metz and Strasbourg, and their links to the extensive Fortis network of 126 Business Centres currently covering 19 countries, Fortis Banque Luxembourg is the natural choice for business clients with cross-border and international scope.

In addition to its traditional operations in business financing, the Bank offers a full range of specialised services such as automated international cash management, international trade support and cover for interest rates, currencies and commodity prices.

This broad offering with pan-European reach leverages a range of competencies to provide effective solutions for both businesses and their owners.

Fortis Lease Group, a wholly-owned subsidiary of Fortis Banque Luxembourg that brings together all the real-estate and other leasing business of Fortis, has continued its vigorous expansion and is now present in 23 countries.

Separately, the Bank's Commercial Banking business line has extended its cooperation with Fortis Lease Luxembourg and Fortis Commercial Finance Luxembourg whose activities are perceived as competitive financing alternatives.

Finally, subsidiary SADE based in Strasbourg has maintained its traditional focus on long and medium-term loan finance, and continued its active partnership with regional institutions. In 2007, when results were once again excellent, financing for real-estate professionals took pride of place.

Best Bank in Luxembourg – a well defended title

The Bank's business strategy and results have regularly won recognition in independent awards. In 2007, international business magazines *Euromoney* and *Global Finance* once again named Fortis Banque Luxembourg the Best Bank in Luxembourg.

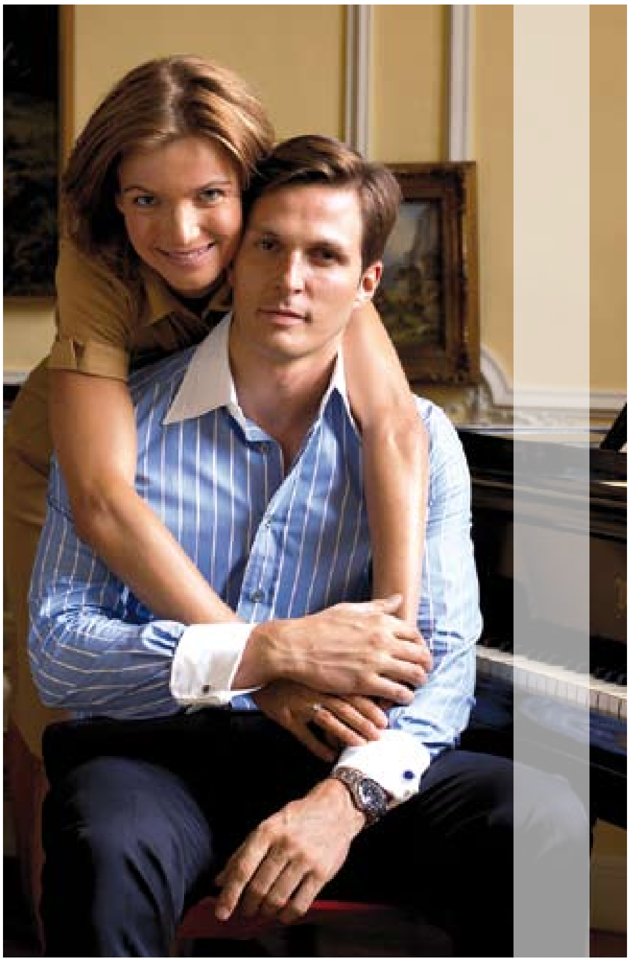
Private Banking

Private Banking business made continued progress despite turbulence on financial markets that was particularly in evidence towards the close of the year.

Private Banking Luxembourg

The Bank's Private Banking business, which is an integral part of the Fortis Private Banking business line present in 17 countries, is structured around the Private Banking department at the Royal Monterey Centre and Private Banking Centres located at Luxembourg Gare and Wiltz.

Drawing on the resources of 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.



Private Banking portfolios under discretionary management turned in an excellent performance despite high market volatility, a result reflecting in particular strategic allocations to funds of hedge funds.

Turning to advised management services, the Bank's offering was rounded out with investment themes such as "agriflation", global warming and the major construction projects on a global scale.

Fortis Private Banking has concluded an agreement with Standard & Poor's that provides Private Banking teams with access to research from top analysts covering a wide selection of US and European stocks.

In response to growing demand and as part of its general commitment to the optimisation of client assets, the Bank also expanded its financing services, setting up a specialised unit to offer innovative, integrated solutions in areas such as purchases of holiday homes and yachts.

In the field of fund-linked life insurance, Private Banking Luxembourg drew on close cooperation with Fortis Luxembourg Assurances and investment specialists to extend the Optilife range, allowing clients to choose from a broad range of carefully selected third-party funds.

The Bank also set up a Dutch desk to serve clients from the Netherlands, and in so doing contribute to the consolidation of its business development and commercial presence. It also pursued this goal through an integrated new markets team targeting Turkey, Poland, Russia and Scandinavia.

Finally, Fortis Banque Monaco, a wholly-owned subsidiary of Fortis Banque Luxembourg, incorporated in Monaco in July 2007, took over the business and client base of Fortis Private Investment Management. The move will contribute to the development of the group's Private Banking business with the support of the specialised know-how available from the international network.

International Private Banking

In 2007, the Bank's wealth management subsidiary Fortis Banque (Suisse) SA, achieved record results with profit for the year showing an exceptional rise of 34%, reflecting the strong growth in assets under management that has resulted from steady expansion of its domestic and international client base.

Special mention should be made of vigorous performances in financing, particularly for real estate, demonstrating

the appeal of a full offering of customised services that create real client value.

Building on its in-depth knowledge and experience of investment and asset structuring and optimisation combined with the specialised know-how of other group entities in areas such as leasing, trust and corporate services, and commercial banking, Fortis Banque Suisse is able to provide effective response to the most challenging needs.

The Dubai branch, attached to Fortis Banque Suisse, made strong progress, drawing on the support of other group entities, particularly in Luxembourg and Switzerland to offer Private Banking clients a full range of products and services for investment, financing and structuring.

Merchant Banking

In 2007, Merchant Banking Luxembourg again took full advantage of its place in the Fortis group to offer clients optimum solutions backed by access to a full range of products and services integrated through leading-edge know-how.

Global Markets

Widening credit spreads and the slowdown in money markets had a significant impact on Global Markets in 2007 and the Bank's trading room was thus particularly attentive to management of liquidity and credit risk.

Sales operations remained on a positive track, with structured products based on varied investment assets a main source of momentum. During the year, the Bank launched a total of some 200 structured products targeting Retail, Commercial and Private Banking clients. The Structured Products unit focused its offering on guaranteed-principal products, which offer scope to benefit, in accordance with the structure adopted, from gains on equity, fixed-income, energy and commodity markets.

During the year, Trading Room teams were expanded and sales structures overhauled to better meet increased demand for sophisticated, valued-added products. In another move to respond to specialised demand and as part of its natural expansion in the *Grande Région*, the Bank set up a dedicated team to serve small and medium-size businesses operating on the German market.

Finally, the Bank carried out a number of transactions in energy and commodity-market products, working in close cooperation with Fortis teams in London and Houston.

In responding to client needs on these markets and attracting new investors, the Bank drew strength from diversified funding that includes Euro Medium Term Notes, Euro Commercial Paper and US Commercial Paper.

At the same time, market conditions led the Bank to trim its portfolio, which has moderate credit risk exposure, with the result that revenues fell back.

The continuation of its trading operations enabled the Bank to optimise margins while at the same time offering clients innovative, high-quality products. More generally, strict application of sound risk management principles held earnings from the trading room steady in the year.

Finally, a dedicated team was set up to expand the Bank's offering for institutional clients in Luxembourg with standard repo and securities financing services.

Corporate, Institutional and Public Banking

Corporate, Institutional and Public Banking teams continued their success in serving large businesses in Germany, Austria and German-speaking Switzerland.

The client portfolio at the end of 2007 showed a significant rise in the number of counterparties compared with a year earlier, and represented a wide range of sectors with both DAX-listed and unlisted businesses.

Benefiting from firm trends in the world economy, most industrial groups saw strong revenue growth, enabling them to further reduce net debt. This resulted in some pressure on interest-rate margins on credit markets during the year.

A broader offering of banking products and services, including complex financing structures, continued to win business and the Bank was awarded a number of prestigious securitisation mandates for high-profile domestic and international businesses.

Finally, the Bank remained a very active participant in loan syndication and bond issuance for clients on its core markets.

Prime Fund Solutions

An integral part of the Fortis Prime Fund Solutions network, which offers a comprehensive range of investment-fund services including depository-bank services, central administration and financing, Prime Fund Solutions Luxembourg provides specialised services for alternative funds in addition to complete backup for traditional funds.

Assets on deposit with the Bank rose 14% on a year to a new record of close to EUR 92 billion at the end of 2007. On the basis of the latest available statistics, the Bank takes the eighth place in Luxembourg for assets on deposit.

Overall, investment funds were once again one of the most dynamic segments of the Luxembourg financial market, with total assets on deposit with Luxembourg funds showing a rise of approximately 17% to top the EUR 2 trillion mark.

Luxembourg is a focus of excellence recognised for its cross-border distribution capabilities in Europe and around the world. It takes first place for investment funds in Europe and is second only to the US worldwide.

A favourable legal framework, in particular as regards venture capital funds (SICAR) and special investment funds (SIF), has enabled Luxembourg to create new growth segments in the investment fund industry and to attract a significant proportion of alternative funds. These include not only funds specialised in private equity and real estate, but also hedge funds and funds of hedge funds.

The number of SICAR venture capital funds, a structure particularly suited to private equity, has thus remained on the rise and the Bank has maintained its leading place in this area, serving 21 funds with the assistance of Fortis Intertrust. Clients also benefit from a quality offering of administrative and depository-bank services for real-estate funds.

The hedge-fund sector also continued healthy growth, showing a rise of almost 50% in 2007, reflecting both the worldwide trend in the industry and Luxembourg's increasing importance in this area.

Against this backdrop, Prime Fund Solutions Luxembourg has set up a specialised unit to offer administration, financing and depository-bank services for hedge funds leveraging the strengths of an operational network based on integrated systems. This one-stop service, accessible 24 hours a day from Europe, the Americas and Asia, gives clients an assurance of optimum performance backed by outstanding expertise.

The Bank has thus successfully maintained its place as a major provider of services to traditional funds while at the same time positioning itself to make the most of rapid growth in alternative funds – a sector where Fortis Prime Fund Solutions is the world leader.

Operations

Securities Handling

Against the backdrop of reinforced synergies at group level, 2007 saw the setting up of a Corporate Actions competence centre within Securities Handling Luxembourg in charge of handling the entire volume of securities for the Benelux countries.

The upward trend in volumes continued during the year as regards both investment funds and securities transactions, but fell back for stock market trades.

In physical securities handling, the decline resulting from Belgium's dematerialisation legislation was offset by transfers of business within the Fortis group in response to volume variations. Finally, the Bank reinforced its presence in sub-depository business, bringing a rise in assets under administration.

Payments

Preparations for the Single Euro Payments Area (SEPA) were a main focus for the Bank's Payment teams in 2007, with two important stages involved.

The first concerned the successful migration of Luxembourg and the Bank to the European system for urgent execution of large payments Target 2 (Trans European Automated Real Time Gross Settlement Express Transfer).

The second was the run-up to the operational launch in early 2008 of SEPA Credit Transfer (SCT). This involved close cooperation between all Bank departments and the Fortis group's Shared Service Centre Payments for the harmonisation of commercial, regulatory and technical responses.

The progress achieved enabled Fortis to win a head start as the first signatory of the SCT Adherence Agreement of the European Payments Council and take a prime place as a contender for insourcing SEPA payments.

The Bank also undertook a detailed review of the Payment Services Directive, which defines a harmonised legal framework for SEPA.

Against this backdrop of far-reaching change, training and coaching for staff members was more than ever a priority.

These demanding projects have been carried out in a context marked by a significant rise in operating volumes, with electronic payments now accounting for 90% of transactions.

Accounts, Customers and Channels

In 2007, the scope of the department was extended to Estates and Account Immobilisation.

In keeping with its know-your-customer policies the Bank finalised updates of relationship files in cooperation with the various business lines involved. This was associated with organisational improvements, carried out on a transparent, proactive basis, to simultaneously raise productivity and enhance service quality. Implementation of new tools and procedures has also led to steady improvement in the quality of legally required information.

As regards payment cards, the Bank continued the move to automation and set up new monitoring procedures in the interest of improved client service and security.

Information Services and Technology

Development of information systems to meet new client needs and keep step with changes in the banking industry and regulatory environment continued in 2007, with priorities including more efficient processes, tighter control of operational costs, and reduced exposure to operational risk.

Other moves included the introduction of additional tools for branches to know their clients better and upgrades of data in the Bank's client databank.

The Bank also centralised administration of fees for securities trading, making for increased flexibility in this area, and continued upgrades of Web Banking with new functionalities easing access to a wider range of services.

Turning to the broader issues of cost control and process enhancement, the Bank continued deployment of synergies with the Fortis group at various levels without neglecting the specifics of its home country.

Finally, investments in IT infrastructure continued with an eye on the anticipated needs of clients and business lines in terms of availability, performance and security.

Human Resources

At 31 December 2007, the Bank's consolidated staff numbers showed a rise of 6% from 3,619 to 3,837 employees, reflecting healthy growth in the business of the Bank and its subsidiaries.

The continued expansion of the Bank's subsidiary Fortis Lease Group SA into new countries and the acquisition of several new companies explain a rise of 12% in its headcount to 836 at the end of 2007.

Similarly, Fortis Banque (Suisse) SA continued recruitment to keep step with business development, and staff numbers were up to 295 at the end of 2007.

In Luxembourg, staff numbers at Fortis Banque Luxembourg were up from 2,523 at the end of 2006 to 2,608 at the end of 2007. The Bank was again active on the labour market during the year, recruiting 258 new staff members.

In this area, efforts to increase visibility in the educational community continued and a number of promising contacts were made with leading universities, student associations and business and engineering institutes in the region, as well as with schools in Luxembourg. A highlight was the Fortis Job Day, an event providing students and recent graduates with practical insights into the Bank's business and the way it operates. This was in addition to its participation in a large number of job fairs in Luxembourg and the Grande Région.

The pace of change in the industry environment naturally called for a major investment in training to ensure that competencies keep pace and the long-term employability of staff members is preserved. In 2007, the number of training days showed a 25% rise from the already high level of the previous year. Programmes focused in particular on sales, communications and leadership skills, as well as MiFID implementation.

Fortis Foundation Luxembourg

In operation since 2006, Fortis Foundation Luxembourg provides financial and other support for projects with social goals, broadly understood, and in which current and retired staff members of Fortis entities in Luxembourg are personally involved. This ongoing commitment ensures effective backing for socially engaged associations and institutions in areas such as help for the unprivileged and the prevention of social exclusion.

In 2007, the Foundation provided support and made financial contributions to nine associations.

Through the Fortis Foundation 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. This reflects its role 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.

A fundamental principle of the Bank's human resources policy is to offer staff members a healthy, attractive working environment that reinforces motivation. To this end, varied options are also offered to foster a healthy balance between work and family life. These include 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 also illustrated by the commitment, shared with employee representatives, to combat tobacco addiction with an in-house programme. All bank premises have been smoke-free since 7 July 2007.

Against this backdrop, Fortis Banque Luxembourg was awarded the Luxembourg Health Ministry's 2007 prize for Health at Work (*Prix Santé en Entreprise 2007*) in recognition of the many initiatives taken in association with staff representatives to improve working conditions and promote health at the workplace.

The Bank is highly appreciative of the invaluable contributions of its staff members and their representatives and expresses its gratitude for all their achievements and the many efforts made throughout the year.

Unconsolidated Management Report

This report comments on unconsolidated financial information prepared in accordance with Luxembourg Generally Accepted Accounting Principles (LuxGAAP).

Balance Sheet

The unconsolidated *balance sheet total* at 31 December 2007 amounted to EUR 49.5 billion, showing a rise of 5.5% from the previous year.

Loans and advances to customers show a substantial 48.4% rise. This reflects both an increase in mortgages and investment loans, due in turn to favourable trends in the economic environment, and additional loans granted to back a strategy of expansion in leasing business through Fortis Lease Group SA.

With a view to optimising current and expected interest-rate margins, the Bank sold a significant amount of bonds, leading to a 27.9% decline *in debt securities and other fixed-income securities*.

The cash proceeds of these transactions remain in large part uninvested, which partly explains the 56.3% rise in *loans and advances to credit institutions*.

An 18% decline in *amounts owed to customers* followed the maturing of a financial structuring transaction with the combined effect of a deposit of funds and securities borrowing. Excluding this, resources collected from institutional clients were on a positive track.

A steep EUR 6.3 billion rise in *amounts owed to credit institutions* was in large part attributable to the newly launched repo business of the Merchant Banking business line.

The *other liabilities* item showed a rise of EUR 1.1 billion due to the short sale of securities received under a repurchase agreement associated with a major transaction.

Own Funds

Subscribed capital at 31 December 2007 amounted to EUR 350 million, represented by 13,732,035 shares.
If the Annual General Meeting of 3 April 2008 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 2.4 billion at 1 January 2008.

Treasury Stock

In 2007, the Bank did not purchase any of its own shares pursuant to the provisions of article 49-3c) of the Law on Commercial Companies. At 31 December 2007, the Bank held none of its own shares.

Profit and Appropriation

The sum of *net interest income*, *income from securities, net commission income* and *profit on financial operations* earned by the Bank came to EUR 735 million for the 2007 financial year. Of particular note is a decline in the *profit on financial operations*, down from EUR 46.6 million in 2006 to EUR 4 million in 2006, due in large part to recognition in 2007 of value adjustments to bond portfolios. *Income from securities* rose 11.4%, driven by favourable trends in dividends received from subsidiaries. *Net interest income* edged up 1.1%, reflecting in particular the increase in credit granted. *Net commission income* was little changed from the previous year, with the rises in com-

Human Resources at Fortis Banque Luxembourg

At 31 December 2007, the Bank counted 2,608 employees, of whom 1,377 were men (52.80%) and 1,231 were women (47.20%). The Bank thus remains one of the two largest employers in the Luxembourg banking industry. In 2007, 258 new employees were recruited.

During the year, the proportion of employees working part time rose from 17.88% to 18.52% to represent 483 people at the end of the year.

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

Luxembourg	48.4%
France	21.3%
Belgium	18.0%
Other EU countries	11.6%
Countries outside the EU	0.7%

The average age is 39.72 and average seniority 14.10 years.

missions resulting from an increase in assets under management and the continued success of insurance products and banking packages offset by a decline in fees and commissions from trading business, adversely affected by financial-market turbulence from August 2007 on.

Other operating income, which amounted to EUR 76.5 million compared with EUR 250.4 million in 2006, includes in particular capital gains on the sale of non-strategic equity interests and recoveries of tax provisions following finalisation of taxation for several financial years. In 2006, this item included in particular the sizeable capital gains 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.

General administrative expenses rose from EUR 289.4 million in the 2006 financial year to EUR 309 million in 2007. *Staff costs* rose 8.7%, due in particular to automatic increases under the new collective labour agreement and salary adjustments to match the rise in the cost of living index at the end of 2006. The average number of employees rose by 79 compared with 2006. *Other administrative expenses* showed a moderate increase of 3.5% from 2006, reflecting the efforts to contain costs already initiated in previous years.

Pre-tax earnings on ordinary business thus declined 28.9% to EUR 447.9 million. *Tax on earnings from ordinary activities* amounted to EUR 40.4 million, EUR 8.7 million less than in the 2006 financial year. This 17.8% decline in tax reflects recoveries of tax provisions on which tax had already been paid as well as other tax exempt revenues from dedicated financial structures. The latter entail a rise in taxes paid directly by these financing vehicles established in Luxembourg.

The Bank's unconsolidated *net profit* thus amounted to EUR 406.6 million, showing a 29.9% decline from the previous year as a result of lower capital gains on sales of equity interests. Distributable earnings include amounts carried forward from the previous year and total EUR 406.7 million.

The Annual General Meeting is asked to approve the following appropriation of earnings:

Dividend of EUR 18.40 per share on 13,732,035 shares	EUR	252,669,444.00
Appropriation to statutory reserves	EUR	1,296,840.62
Appropriation to free reserves	EUR	110,100,000.00
Appropriation to the wealth-tax reserve	EUR	42,500,000.00
Retained earnings	EUR	127,302.41
Total	**EUR**	**406,693,587.03**

If these proposals are adopted, a final dividend in a gross amount of EUR 3.80 per share will be payable to shareholders in respect of the 2007 financial year on presentation of coupon no. 29. On 19 November 2007, the Bank paid an interim dividend in a gross amount of EUR 14.60 per share on presentation of coupon no. 28. The total gross dividend per share paid in respect of the 2007 financial year thus amounts to EUR 18.40.

Trends in the Bank's business have remained favourable since the close of the financial year, but financial market volatility continued to have an impact on the valuation of some of the Bank's portfolios.

Risk Management

The risk management policies detailed in note 6 to the consolidated financial statements at 31 December 2007 also apply to unconsolidated risks.

In view of the turbulence resulting from the crisis in the US mortgage market and which affected financial markets, it is important to note that the Bank does not have any subprime exposure and has been particularly attentive to the management of credit risks and liquidity, in keeping with the Bank's traditional caution.

Audit and Compliance Committee

The Audit and Compliance Committee was set up in June 2005, bringing together the Audit Committee that existed since 1999 and a new Compliance Committee established pursuant to circular CSSF 04/155 on Compliance. Made up of Directors who are not members of the Bank's management or staff, the Audit and Compliance Committee is charged with assisting the Board of Directors in its supervisory role. Its members are appointed by the Board of Directors and include the Chairman of the Board of Directors, who is also Chairman of the Audit and Compliance Committee, and three other Directors.

In 2007, the Audit and Compliance Committee met five 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 5 April 2007 renewed the terms of office of Joseph Kinsch, Michel Wurth and Daniël van Woensel.

Michel van Pée, whose term of office expired at the Annual General Meeting of 5 April 2007, had expressed the wish that it should not be renewed. The resignation of Marc-Yves Blanpain with effect from 31 December 2006 had led to another vacancy on the Board. The Board of Directors expressed its gratitude for these Directors' commitment to the Bank.

Considering this situation and with a view to filling these two vacancies in accordance with article 14 of the Bank's Articles of Association, the Annual General Meeting of 5 April 2007 appointed Michel de Hemptinne and Bernard Frenay, both Chief Executive Officers of Fortis, to the Board of Directors.

The terms of office of HRH Prince Guillaume of Luxembourg, Paul Meyers, Pierre Gramegna and Arno Schleich expire on the occasion of the Annual General Meeting on 3 April 2008. HRH Prince Guillaume of Luxembourg, Paul Meyers, Pierre Gramegna and Arno Schleich are all eligible for re-election and will again be standing for office.

Luxembourg, 13 March 2008

The Board of Directors