Consolidated Financial Statements for the Year Ended 31 December 2006

Unless otherwise indicated, all amounts stated in the tables are denominated in million of euros.

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REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

Following our appointment by the Board of Directors dated 17 November 2005, we have audited the accompanying consolidated financial statements of Fortis Banque Luxembourg S.A., which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the statement of changes in consolidated equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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T.V.A. LU 20379877
Capital 25.000 €
R.C.S. Luxembourg B 103590

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Fortis Banque Luxembourg S.A. as of 31 December 2006, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is in accordance with the consolidated financial statements.

Luxembourg, 15 March 2007

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

E. Damotte

Consolidated Balance Sheet at 31 December 2006

(before appropriation of profit)

	Notes	31 December 2006	31 December 2005
Assets			
Cash and cash equivalents	15	6,406.5	6,640.3
Held for trading financial assets	16, 37	529.6	529.6
Hedging derivatives	17, 37	44.4	36.2
Loans and receivables to credit institutions	18	4,863.8	978.1
Loans and receivables to customers	19	20,520.2	16,585.6
Available for sale financial assets	20	14,774.3	14,810.9
Held to maturity financial assets	21	1,938.0	1,863.9
Financial assets designated at fair value through profit or loss	22	39.7	140.3
Investments in associates accounted for under the equity method	23	313.3	321.6
Investment property	24	535.6	336.2
Tangible assets	25	242.0	250.4
Goodwill and other intangible assets	26	252.5	206.8
Current and deferred tax assets	33	27.8	23.7
Other assets	27	934.1	864.6
Prepayments and accrued income	28	698.3	566.7
Total assets		**52,120.1**	**44,154.9**
Liabilities			
Held for trading financial liabilities	16, 37	497.7	613.0
Hedging derivatives	17, 37	49.6	98.0
Deposits from credit institutions	29	10,742.4	8,813.4
Deposits from customers	30	25,207.0	19,473.2
Debt certificates	31	9,129.6	8,436.8
Subordinated liabilities	32	915.8	937.1
Current and deferred tax liabilities	33	489.3	552.0
Provisions	34	33.5	42.7
Other liabilities	35	938.9	1,003.9
Accruals and deferred income	36	389.0	341.5
Total liabilities		**48,392.8**	**40,311.6**
Shareholders' equity	5	3,717.5	3,839.6
Minority interest	6	9.8	3.7
Total equity		**3,727.3**	**3,843.3**
Total liabilities and equity		**52,120.1**	**44,154.9**

The notes refer to the notes to the consolidated financial statements.

Consolidated Profit and Loss Account for the Year Ended 31 December 2006

	Notes	2006	2005
Interest and similar income	39	2,778.8	2,030.1
Interest expense and similar charges	39	-2,198.8	-1,462.9
Dividends and other investment income	40	63.7	61.3
Share of the profit or loss of associates accounted for under the equity method		85.7	65.6
Fee and commission income	41	423.1	363.5
Fee and commission expenses	41	-110.6	-98.5
Net realised capital gains on investments	42	162.5	21.7
Other net realised and unrealised gains (losses)	43	77.7	51.2
Other income		21.5	25.3
Net operating income before change in impairments		**1,303.6**	**1,057.3**
Change in impairments	44	-42.6	-41.8
Total net operating income		**1,261.0**	**1,015.5**
Staff expenses	45	-277.4	-259.8
Other administrative expenses	46	-177.2	-157.6
Amortisation of tangible and intangible assets	47	-54.4	-52.7
Total operating expenses		**-509.0**	**-470.1**
Profit before tax		**752.0**	**545.4**
Tax expense	48	-79.5	-80.5
Net profit for the year		**672.5**	**464.9**
Minority interest		0.3	0.1
Net profit attributable to shareholders		**672.2**	**464.8**

The notes refer to the notes to the consolidated financial statements.

Statement of Changes in Consolidated Equity

	Share capital	Share premium reserve	Other reserves	Foreign currency translation	Net profit attributable to shareholders	Revaluation reserve	Shareholders' equity	Minority interest	Total equity
Balance at 1 January 2005	**350.0**	**633.5**	**2,010.5**	**-3.0**		**350.7**	**3,341.7**	**27.9**	**3,369.6**
Net profit for the year					464.8		464.8	0.1	464.9
Dividends									
Revaluation of investments						28.5	28.5	-0.7	27.8
Foreign currency translation				4.6			4.6	-0.1	4.5
Transfers									
Other								-23.5	-23.5
Balance at 31 December 2005	**350.0**	**633.5**	**2,010.5**	**1.6**	**464.8**	**379.2**	**3,839.6**	**3.7**	**3,843.3**
Net profit for the year					672.2		672.2	0.3	672.5
Dividends					-650.2		-650.2		-650.2
Revaluation of investments						-140.7	-140.7	0.1	-140.6
Foreign currency translation				-3.4			-3.4		-3.4
Transfers			-185.4		185.4				
Other			13.6			-13.6		5.7	5.7
Balance at 31 December 2006	**350.0**	**633.5**	**1,838.7**	**-1.8**	**672.2**	**224.9**	**3,717.5**	**9.8**	**3,727.3**

The line “Other” indicates the impact on “Minority interest” of acquisitions and sales of shares from subsidiaries and the adjustment of the accounts of a company accounted for under equity method relating to the captions “Other reserves” and “Revaluation reserve”.

The detail of the revaluation reserve is disclosed in note 5.

Consolidated Cash Flow Statement

	2006	2005
Cash and cash equivalents - at 1 January	**6,640.3**	**9,230.3**
Profit before tax	752.0	545.4
Non-cash items included in net profit and other adjustments:		
Net realised gains (losses) on sales	-168.5	-84.0
Net unrealised gains (losses)	61.3	18.3
Share of the profit or loss of associates accounted for under equity method, net of dividends received	-50.8	-40.6
Amortisations	57.9	84.3
Provisions and impairments	40.7	41.7
Changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	-108.3	162.4
Loans and receivables to credit institutions	-3,878.8	1,835.8
Loans and receivables to customers	-3,212.5	-2,621.8
Other assets	51.5	-253.0
Deposits from credit institutions	1,392.0	1,357.4
Deposits from customers	5,438.0	-1,786.9
Net changes in other operational assets and liabilities	-424.7	-1,774.7
Tax paid	-86.1	-77.6
Net cash used in operating activities	**-136.3**	**-2,593.3**
Purchases of investments	-6,258.7	-5,748.3
Sales and redemptions of investments	6,008.0	3,578.3
Purchases of investment property	-219.7	-82.1
Sales of investment property	10.6	26.5
Purchases of tangible assets	-23.1	-20.4
Sales of tangible assets	1.8	1.5
Acquisitions of subsidiaries, net of cash acquired	-36.5	-201.3
Divestments of subsidiaries, net of cash sold	55.0	-1.6
Acquisitions of intangible assets	-11.0	-5.4
Net cash used in investing activities	**-473.6**	**-2,452.8**
Issuance of debt certificates	5,395.1	6,189.5
Redemption of debt certificates	-4,416.5	-3,890.5
Issuance of subordinated liabilities	25.3	284.0
Redemption of subordinated liabilities	-9.1	-128.8
Issuance of other borrowings	43.8	
Redemption of other borrowings	-1.5	
Dividends paid to shareholders	-653.0	
Repayment of capital (including minority interest)	-1.3	
Net cash used in financing activities	**382.8**	**2,454.2**
Impacts of foreign exchange differences on cash and cash equivalents	-6.7	1.9
Cash and cash equivalents - at 31 December	**6,406.5**	**6,640.3**
Supplementary disclosures of operating cash flow information		
Interest received	2,691.8	1,872.7
Dividends received	26.2	26.2
Interest paid	-2,195.8	-1,442.4

1 General Information

Founded on 29 September 1919, Banque Générale du Luxembourg (referred below as "the Bank") took the legal form of a limited liability company under Luxembourg law on 21 June 1935. The Extraordinary General Meeting of Shareholders of 17 November 2005 voted to change the name of the Bank from "Banque Générale du Luxembourg" to "Fortis Banque Luxembourg".

The corporate purpose of the Bank is to engage in all types of banking and financial operations and services, to take participating interests in businesses as well as to undertake commercial, industrial and other operations, including transactions in moveable or real estate property, for its own account and on behalf of third parties, relating directly or indirectly to its corporate purpose or being conducive to favour its achievement. It may perform its activities in the Grand Duchy of Luxembourg or abroad.

The Bank is included in the consolidated financial statements of Fortis Bank SA, its principal shareholder. The consolidated financial statements of Fortis Bank SA are available at its registered address, which is 3 Montagne du Parc, Brussels.

The Bank is a member of the Fortis group, the broadest grouping of businesses in which it is included as a subsidiary. The consolidated financial statements of the Fortis group are available at the following addresses:

- Fortis and Fortis SA: Fortis, Rue Royale 20, 1000 Brussels, Belgium;
- Fortis and Fortis NV: Fortis, Archimedeslaan 6, 3584 BA Utrecht, the Netherlands.

2 Accounting Policies

2.1 General information

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations existing as at 31 December 2006 and as adopted by the European Union.

The Bank's consolidated financial statements as at 31 December 2005 were prepared in accordance with the legal and regulatory requirements applicable in Luxembourg. A summary of these accounting standards ("Local Accounting Principles" or "LAP") is described in the 2005 consolidated financial statements of the Bank. The Bank has restated these consolidated financial statements for comparative purposes to comply with IFRS. The impacts of the adoption of IFRS are disclosed in note 3 to the consolidated financial statements.

Where accounting policies are not specifically mentioned below, reference should be made to the IFRS as adopted by the European Union.

2.2 Accounting estimates

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain accounting estimates. It requires Management to formulate assumptions and estimations based on its judgment and available informations at the date of preparation of the consolidated financial statements. Actual results may differ from those assumptions and estimations.

Estimates and judgments relate mainly to the following areas:
- estimation of the recoverable amount of impaired assets;
- determination of fair values of non-quoted financial instruments;
- determination of the useful life and the residual value of tangible assets, investment property and intangible assets;
- actuarial assumptions relating to the measurement of pension obligations and assets;
- estimation of present obligations resulting from past events in the recognition of provisions.

2.3 First-time adoption of IFRS

IFRS 1, *First-time adoption of International Financial Reporting Standards*, requires the retrospective application of IFRS when an entity is first adopting IFRS. However, to ease the implementation of IFRS, the standard provides entities with twelve optional exemptions. The Bank has decided to use the following exemptions when adopting IFRS for the first time at 1 January 2005:

- **Business combinations:** This exemption allows entities not to apply IFRS 3, Business combinations, retrospectively to past business combinations. The Bank has decided to take advantage of this exemption and therefore, applies the provisions of IFRS 3, Business combinations, to all business combinations occurring on or after 1 January 2005. Accordingly, business combinations that occurred prior to 1 January 2005 – and the goodwill that was included in equity – are not restated under IFRS.

- **Employee benefits:** Under IAS 19, *Employee Benefits*, entities may elect to use a "corridor" approach that leaves some actuarial gains and losses within defined limits unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognised portion and an unrecognised portion. However, entities may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRS. The Bank has decided to take advantage of this exemption and therefore does not apply IAS 19 retrospectively, and recognises all actuarial gains and losses as at 1 January 2005. The Bank applies the corridor approach prospectively from this date.

- **Cumulative foreign currency translation differences:** IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires entities to classify some foreign currency translation differences as a separate component of equity, and on disposal of a foreign operation, to transfer the cumulative foreign currency translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to profit or loss as part of the gain or loss on disposal. However, entities have the option not to comply with these requirements for cumulative foreign currency translation differences that existed at the date of transition to IFRS. Consequently, the cumulative foreign currency translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS, and the gain or loss on a subsequent disposal of any foreign operation shall exclude foreign currency translation differences that arose before the date of transition to IFRS. The Bank takes advantage of this exemption.

- **Designation of previously recognised financial instruments:** IAS 39, *Financial Instruments: Recognition and Measurement*, allows a financial instrument to be designated on initial recognition as a financial asset or financial liability at fair value through profit or loss or as a financial asset available for sale. Entities have the option to make such a designation at the date of transition to IFRS. The Bank takes advantage of this exemption and designates some previously recognised financial assets as held at fair value through profit or loss or available for sale and some previously recognised financial liabilities as held at fair value through profit or loss as at the date of transition.

2.4 Adoption dates

IFRS allows earlier application of certain standards. The Bank has decided to adopt IAS 32 *(Financial instruments: disclosure and presentation)*, IAS 39 *(Financial instruments: recognition and measurement)*, IFRS 2 *(Share based payment)*, IFRS 3 *(Business combinations)* and IFRS 5 *(Non-current assets held for sale and discontinued operations)* from 1 January 2005. IFRS 6 *(Exploration for and evaluation of mineral resources)* is not applicable to the activities carried out by the Bank. IFRS 7 *(Financial instruments: disclosures)* will be applied from 1 January 2007 and will only have an impact on disclosures, not on recognition or measurement.

2.5 Segment reporting

Primary reporting format – business segments

The Bank is organised into three business segments:

- Retail Banking;
- Merchant Banking;
- Commercial and Private Banking.

Transactions or transfers between the business segments are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

Secondary reporting format – geographical segments

A geographical segment is engaged in providing products or services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Bank's reported geographical segments are as follows:

- Benelux (Belgium, The Netherlands, Luxembourg);
- Other European Countries.

2.6 Consolidation principles

Subsidiaries

The consolidated financial statements include the financial statements of Fortis Banque Luxembourg SA and its subsidiaries. Subsidiaries are those companies, which the Bank, directly or indirectly, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities ("control"). Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date that control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale.

Intercompany transactions, balances and gains and losses on transactions between the Bank's companies are eliminated. Minority interest in the net assets and net results of consolidated subsidiaries are shown separately on the balance sheet and income statement. Minority interest are stated at the fair value of the net assets at the date of acquisition. Subsequent to the date of acquisition, minority interest comprise the amount calculated at the date of acquisition and the minority's share of changes in equity since the date of acquisition.

The existence and impact of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity.

Joint ventures

Investments in joint ventures are accounted for using the equity method. Joint ventures are contractual agreements whereby the Bank and other parties undertake an economic activity that is subject to joint control.

Investments in associates accounted for under the equity method

Investments in associates where the Bank has significant influence, but which it does not control, are accounted for using the equity method. The ownership share of net income for the year is recognised in the income statement at the Bank's share of the net assets of the associate accounted for under the equity method. Goodwill recognised from an acquisition of an associate accounted for under the equity method is presented as part of the investment in that associate.

Gains on transactions between the Bank and associates accounted for under the equity method are eliminated to the extent of the Bank's interest. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Adjustments are made to the financial statements of the associates to ensure consistent accounting policies across the Bank.

Losses are recognised until the carrying amount of the investment is reduced to nil and further losses are only recognised to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of an associate accounted for under the equity method.

2.7 Foreign currencies

The consolidated financial statements are stated in euros, which is the functional currency of the Bank.

Foreign currency transactions

For individual entities of the Bank, foreign currency transactions are accounted for using the exchange rate at the date of the transaction.

Outstanding balances in foreign currencies at year end are translated at year end exchange rates for monetary items.

Translation of non-monetary items depends on whether the non-monetary items are carried at historical cost or at fair value. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values are determined.

The resulting exchange differences are recorded in the income statement under the caption "Other realised and unrealised gains (losses)", except for those non-monetary items whose fair value change is recorded as a component of equity.

The distinction between exchange differences (recognised in the income statement) and unrealised fair value gains (losses) (recognised in shareholders' equity) on available-for-sale financial assets is determined according to the following rules:

- the exchange differences are determined based on the evolution of the exchange rate calculated on the previous balances in foreign currency;
- the unrealised (fair value) gains (losses) are determined based on the difference between the balances in euros of the previous and the new year, converted at the new exchange rate.

Foreign currency translation

On consolidation, the income statement and cash flow statement of entities whose functional currency is not denominated in euros are translated into the presentation currency of the Bank, euro, at average daily exchange rates for the current year (or exceptionally at the exchange rate at the date of the transaction if exchange rates fluctuate significantly) and their balance sheets are translated using the exchange rates prevailing at the balance sheet date. Translation exchange differences are recognised in shareholders' equity.

Foreign currency translation differences arising on monetary liabilities designated as hedges of a net investment in a foreign entity and complying with the rules of hedge accounting are directly recorded in shareholders' equity, except for any hedge ineffectiveness that is immediately recognised in the income statement. At the disposal of the net investment, the foreign currency translation differences are recognised in the income statement as a gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate on the balance sheet date.

	Rates at year end		Average rates	
	2006	2005	2006	2005
1 euro=				
Pound sterling	0.67	0.69	0.68	0.68
Swiss franc	1.61	1.55	1.57	1.55
New Turkish pound	1.87	1.60	1.81	1.62

2.8 Trade and settlement date

All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, which is the date when the Bank becomes a party to the contractual provisions of the financial assets.

Forward purchases and sales other than those requiring delivery within the time frame established by regulation or market convention are recognised as derivative forward transactions until settlement.

2.9 Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.10 Classification and measurement of financial assets and liabilities

The Bank classifies financial assets and liabilities based on the business purpose of entering into these transactions.

Financial assets

The measurement and income recognition in the income statement depend on the IFRS classification of the financial assets, being: (a) loans and receivables; (b) held to maturity financial assets; (c) financial assets designated at fair value through profit or loss and (d) available for sale financial assets. This IFRS classification determines the measurement and recognition as follows:

a) Loans and receivables are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation in the income statement.

b) Held to maturity financial assets consist of securities with fixed or determinable payments and fixed maturity for which the positive intent and ability to hold to maturity is demonstrated. They are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

c) Financial assets designated at fair value through profit or loss include:
   (i) held for trading financial assets, including derivatives that do not qualify for hedge accounting, and
   (ii) financial assets that the Bank has irrevocably designated at initial recognition or first-time adoption of IFRS as designated at fair value through profit or loss.

d) Financial assets available for sale are those that are otherwise not classified as loans and receivables, held to maturity financial assets, or financial assets designated at fair value through profit or loss. Available for sale financial assets are initially measured at fair value (including transaction costs), and are subsequently measured at fair value with unrealised gains or losses from fair value changes reported in shareholders' equity.

Financial liabilities

Financial liabilities are classified as held for trading liabilities, deposits from credit institutions, deposits from customers, debt certificates, subordinated liabilities and other liabilities.

The measurement and recognition in the income statement depends on the IFRS classification of the financial liabilities, being: (a) financial liabilities designated at fair value through profit or loss, and (b) other financial liabilities. This IFRS classification determines the measurement and recognition in the income statement as follows:

a) Financial liabilities designated at fair value through profit or loss include:
   (i) financial liabilities held for trading, including derivatives that do not qualify for hedge accounting, and
   (ii) financial liabilities that the Bank has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss.

b) Other financial liabilities are initially recognised at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

2.11 Fair value of financial assets and liabilities

The fair value of a financial asset or liability is determined based on quoted prices in active markets. When quoted prices in active markets are not available, valuation techniques are used. Valuation techniques make maximum use of market inputs but are affected by the assumptions used, including discount rates and estimates of future cash flows. Such techniques include market prices of comparable investments, discounted cash flows, option pricing models and market multiples valuation methods. In the rare case where it is not possible to determine the fair value of a financial instrument, it is accounted for at cost.

On initial recognition, the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by observable current market transactions in the same instrument, or is based on a valuation technique that includes inputs only from observable markets.

The principal methods and assumptions used by the Bank in determining the fair value of financial instruments are:

- Fair values for securities available for sale or at fair value through profit or loss are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the swap curve plus a spread reflecting the risk characteristics of the instrument.

- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.

- Fair values for unquoted private equity investments are estimated using applicable market multiples (e.g. price/earnings or price/cash flow ratios) refined to reflect the specific circumstances of the issuer.

- Fair values for loans are determined using discounted cash flow models based upon the Bank's current incremental lending rates for similar type loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated according to IFRS.

- Off-balance sheet commitments or guarantees are fair valued based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

- For short-term payables and receivables, the carrying amounts are considered to approximate fair values.

2.12 Measurement of impaired assets

An asset is impaired when its carrying amount exceeds its recoverable amount. The Bank reviews all of its assets at each reporting date for objective evidence of impairment.

The carrying amount of impaired assets is reduced to its estimated recoverable amount and the amount of the change in the current year is recognised in the income statement. Recoveries, write-offs and reversals of impairment are included in the income statement as part of "change in impairments".

If in a subsequent period the amount of the impairment on assets other than goodwill or available-for-sale equity instruments decreases, due to an event occurring after the write-down, the amount is reversed by adjusting the impairment and is recognised in the income statement.

Financial assets

A financial asset (or group of financial assets) is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated.

Depending on the type of financial asset, the recoverable amount can be estimated as follows:
- the fair value using an observable market price;
- present value of expected future cash flows discounted at the instrument's original effective interest rate; or
- based on the fair value of the collateral.

Impairments to available-for-sale equity instruments cannot be reversed through the income statement.

Other assets

For non-financial assets, the recoverable amount is measured as the higher of the fair value less cost to sell and the value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

Goodwill

See note 2.22 Goodwill.

2.13 Cash and cash equivalents

Content

Cash and cash equivalents comprise cash on hand, freely available balances with central banks and other financial instruments with less than three months maturity from the date of acquisition.

Cash flow statement

The Bank reports cash flows from operating activities using the indirect method, whereby the profit before tax is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest received and interest paid are presented as cash flows from operating activities in the cash flow statement. Dividends received are classified as cash flows from operating activities. Dividends paid are classified as cash flows from financing activities.

2.14 Derivatives

Recognition and classification

Derivatives are financial instruments such as swaps, forward and future contracts, and options (both written and purchased). Fair values of derivatives change in response to change in various underlying variables, require little or no net initial investment, and are settled at a future date.

All derivatives are recognised on the balance sheet at fair value on the trade date:

- derivatives held for trading in the caption “Held for trading financial assets” and “Held for trading financial liabilities”;
- derivatives that qualify for hedge accounting in the caption “Hedging derivatives”, as assets or liabilities depending on whether the fair value is positive or negative.

Subsequent changes in the clean fair value (i.e. excluding the interest accruals) of derivatives are reported in the income statement under the caption “Other realised and unrealised gains (losses)”.

Financial assets or liabilities may include embedded derivatives. Such financial instruments are often referred to as hybrid financial instruments. Hybrid financial instruments include reverse convertible bonds (bonds whose repayment may take the form of equities) or bonds with indexed interest payments. If the host contract is not carried at fair value through profit or loss and the characteristics and risks of the embedded derivative instrument are not closely related to those of the host contract, the embedded derivative instrument should be separated from the host contract and measured at fair value as a standalone derivative instrument. Changes in the fair value are recorded in the income statement. The host contract is accounted for and measured applying the rules of the relevant category of the financial instrument.

However, if the host contract is carried at fair value through profit or loss or if the characteristics and risks of the embedded derivative instrument are closely linked to those of the host contract, the embedded derivative instrument is not separated and the hybrid financial instrument is measured as one instrument.

Embedded derivatives requiring separation are reported as hedging derivatives or derivatives held for trading as appropriate.

Hedge accounting

On the date a derivative contract is entered into, the Bank may designate this contract as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); (2) a hedge of a net investment in a foreign entity or; (3) a hedge of future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge). Hedges of firm commitments are fair value hedges, except for hedges of foreign exchange risk, which are accounted for as cash flow hedges.

At the beginning of the transaction, the Bank documents the relationship between hedging derivatives and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment - both at the beginning of the hedge relationship and on an ongoing basis - of whether the derivatives that are used as hedging are highly effective in offsetting changes in fair values or cash flows of hedged items.

Only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the Bank are designated as hedged items.

The change in fair value of a hedged asset or liability that is attributable to the hedged risk and the change in the fair value of the hedging derivative in a fair value hedge are recognised in the income statement. The change in the fair value of interest-bearing derivatives is presented separately from interest accruals.

If the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, the adjustment to the carrying amount of a hedged interest-bearing financial instrument that results from hedge accounting is amortised using the new effective interest rate calculated on the hedge discontinuance date.

Fair value hedge accounting is applied for portfolio hedges of interest rate risk ("macro hedging"). Macro hedging implies that a group of derivatives (or proportions) are viewed in combination and jointly designated as the hedging instrument. Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated is an amount of assets or an amount of liabilities. In this context, the starting difference between the fair value and the carrying value of the hedged item at designation of the hedging relationship is amortised over the remaining life of the hedged item. For macro hedges, the Bank opted for the "carved out" version of IAS 39 adopted by the European Union which removes some of the limitations on fair value hedges and the strict requirements on the effectiveness of those hedges. Under this version, the impact of the changes in the estimates of the repricing dates is only considered ineffective if it leads to underhedging.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised as unrealised gains and losses in shareholders' equity. Any hedge ineffectiveness is immediately recognised in the income statement.

When the hedge of a forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of that non-financial asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as profit or loss in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

2.15 Loans and receivables to credit institutions and to customers

Classification

Loans and receivables to credit institutions and to customers include loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent and loans purchased from third parties that are carried at amortised cost. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Loans that are originated or purchased with the intent to be sold or securitised in the short-term are classified as “held for trading financial assets”. Loans that are designated “at fair value through profit or loss” or “available for sale” are classified as such at initial recognition or upon first-time adoption of IFRS.

Measurement

Incremental costs incurred and loan origination fees earned in securing a loan are deferred and amortised over the life of the loan as an adjustment to the yield.

Impairment

A credit risk for specific loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due in accordance with contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows or, alternatively, the collateral value less costs to sell if the loan is secured.

An “incurred but not reported” (IBNR) impairment on loans is recorded when there is objective evidence that incurred losses are present in components of the loan portfolio, without having specifically identified impaired loans. This impairment is estimated based upon historical patterns of losses in each component, reflecting the current economic climate in which the borrowers operate and taking into account the risk of difficulties in servicing external debt in some foreign countries based on an assessment of the political and economic situation.

Impairments are recorded as a decrease in the carrying value of loans to credit institutions and loans to customers.

When a specific loan is identified as uncollectible and all legal and procedural actions have been exhausted, the loan is written off against the related charge for impairment and subsequent recoveries are credited to change in impairments in the income statement.

2.16 Sale and repurchase agreements and lending/borrowing of securities

Securities subject to a repurchase agreement ("repos") are not derecognised from the balance sheet. The liability resulting from the obligation to repurchase the assets is included in "deposits from credit institutions" or "deposits from customers" depending on the type of counterparty. Securities purchased under agreements to resell ("reverse repos") are not recognised on the balance sheet. The right to receive cash from the counterparty is recorded as due from banks or due from customers depending on the type of counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the consolidated balance sheet. If borrowed securities are sold to third parties, the proceeds from the sale and a liability for the obligation to return the collateral are recorded. The obligation to return the collateral is measured at fair value through profit or loss and is classified as a financial liability held for trading.

2.17 Financial assets and liabilities held for trading

A financial asset or a financial liability is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- a derivative (except for a derivative that is hedge accounted).

Held for trading financial assets and liabilities are initially recognised and subsequently measured at fair value through profit or loss. The (realised and unrealised) gains (losses) are included in "other net realised and unrealised gains (losses)". Interest received (paid) on held for trading assets (liabilities) is reported as interest income (expense). Dividends received are included in "dividends and other investment income".

2.18 Securities

Management determines the appropriate classification of its securities at the time of the purchase. Securities with a fixed maturity where management has both the intent and the ability to hold to maturity are classified as "held to maturity". Securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available for sale. Securities that are acquired for the purpose of generating short-term profits are considered to be held for trading. Any investment, other than investments in equity instruments without a quoted market price in an active market, may be designated on initial recognition as a "financial assets designated at fair value through profit or loss". Once an asset has been designated at fair value through profit or loss it cannot be transferred to a different category.

Held to maturity securities are carried at amortised cost less any impairment changes. Any difference between the initial recognition amount resulting from transaction costs, initial premiums or discounts is amortised over the life of the security using the effective interest method. If a held to maturity security is determined to be impaired, the impairment is recognised in the income statement.

Available for sale securities are held at fair value. Changes in the fair value are recognised directly in shareholders' equity until the asset is sold unless the asset is hedged by a derivative. If a security is determined as impaired, the impairment is recognised in the income statement. For impaired available for sale securities, unrealised losses previously recognised in shareholders' equity are transferred to the income statement when the impairment occurs.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, the impairment is reversed, with the amount of the reversal recognised in the income statement. Impairments recognised in the income statement for an investment in an equity instrument classified as available for sale are not reversed through the income statement.

Available for sale securities that are hedged by a derivative are carried at fair value through the income statement.

Held for trading financial assets and assets designated at fair value through profit or loss are carried at fair value. Changes in the fair value are recognised in the income statement.

2.19 Investment property

Investment properties are those properties held to earn rental income or for capital appreciation. The Bank may also use certain investment properties for its own use. If the own use portions can be sold separately or leased out separately under a finance lease, these portions are accounted for as "tangible assets". If the own use portions cannot be sold separately, the property is treated as "investment property" only if the Bank holds an insignificant portion for its own use.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual value and the useful life of investment property are reviewed at each year end.

The Bank rents its investment property to unrelated third parties under various non-cancellable rental contracts. Certain contracts contain renewal options for various periods of time; the rental income associated with these contracts is recognised on a straight-line basis over the rental term as “dividend and other investment income”.

Transfers to, or from, investment property are only made when there is a change of use:
- into investment property at the end of owner-occupation, or at the start of an operating lease to a another party, or at the end of construction or development;
- out of investment property at the beginning of owner-occupation, or start of development with a view to sale.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2.20 Leases

The Bank and its subsidiaries as a lessor

- **Operating lease agreements**

Assets leased under operating lease agreements are included in the consolidated balance sheet (1) under investment property (buildings), and (2) under tangible assets (equipment and motor vehicles). They are recorded at cost less accumulated depreciation. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the lease term. Initial direct costs incurred by the Bank and its subsidiaries are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

- **Financial lease agreements**

The Bank and its subsidiaries have also entered into finance lease agreements, in which substantially all the risks and rewards related to ownership of the leased asset, other than legal title, are transferred to the customer.

When assets held are subject to a finance lease agreement, the present value of the lease payments and any guaranteed residual value is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income (see note 19). Lease interest income is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of finance leases. Initial direct costs incurred by the Bank and

its subsidiaries are included in the finance lease receivable and allocated against lease interest income over the lease term.

The Bank and its subsidiaries as a lessee

- **Operating lease agreements**

The Bank and its subsidiaries principally enter into operating leases for the rental of equipment and land and buildings. Payments made under such leases are typically charged to the income statement principally on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Any incentives received from the lessor in relation to operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

- **Financial lease agreements**

If the lease agreement transfers substantially all the risks and rewards incident to ownership of the asset, the lease is recorded as a finance lease agreement and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the shorter of its estimated useful life or the lease term. The corresponding lease obligation, net of finance charges, is recorded as borrowings. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each period.

2.21 Tangible assets

Real estate held for own use and fixed assets are stated at cost less accumulated depreciation (except for land that is not depreciated) and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Generally, depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual value and the useful life of tangible assets are determined for each significant part separately (component approach) and are reviewed at each year end.

Repairs and maintenance expenses are charged to the income statement when the expenditure is incurred. Expenditures that enhance or extend the benefits of real estate or fixed assets beyond their original use are capitalised and subsequently depreciated.

For borrowing costs to finance the construction of tangible assets: see note 2.33 “Borrowing costs”.

2.22 Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the acquisition cost over the interest of the Bank in the fair value of assets, identifiable and contingent liabilities of the acquired entities. Goodwill arising on the acquisition of a subsidiary is reported on the balance sheet as an intangible asset. Goodwill arising on business combinations before 1 January 2005 is deducted from equity and is not restated under IFRS (see note 2.3). At acquisition date, it is allocated to those cash-generating units that are expected to benefit from the synergies of the business combination. It is not amortised, but instead is tested for impairment. Goodwill arising on the acquisition of an associate is presented as part of the investment in the associate.

Any excess of the acquired interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over the acquisition cost is recognised immediately in the income statement.

In case of the acquisition of entities under joint control (already previously controlled by another entity of Fortis group), the amount recorded as "Goodwill and other intangible assets" is determined as the excess of the acquisition cost over the historical carrying values of the assets and liabilities acquired.

The Bank assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists, the recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of the cash-generating unit and an impairment loss is recognised if the recoverable amount is less than the carrying amount. Impairment losses are recognised immediately in the income statement.

The Bank first reduces the carrying amount of goodwill allocated to the cash generating unit and then reduces the other assets in the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash generating unit. Previously recognised impairment losses relating to goodwill are not reversed.

The Bank may obtain the control of a subsidiary in more than one transaction. When this occurs, each exchange transaction is treated separately by the Bank. The cost of each transaction is compared to the fair value of each transaction to determine the amount of goodwill associated with that individual transaction. Before the Bank obtains control of the entity, the transaction may qualify as an investment in an associate and be accounted for using the equity method. If so, the fair value of the investee's identifiable net assets at the date of each earlier transaction will have been determined in applying the equity method to the investment.

Intangible assets

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably.

Internally generated intangible assets are capitalised when the Bank can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets arising from research and internally generated goodwill are not capitalised.

Software for computer hardware that cannot operate without that specific software, such as the operating system, is an integral part of the related hardware and it is treated as a tangible asset. If the software is not an integral part of the related hardware, the costs incurred during the development phase for which the Bank can demonstrate all of the above-mentioned criteria are capitalised as an intangible asset and amortised using the straight-line method over the estimated useful life.

Other intangible assets include intangible assets with definite lives, such as trademarks and licenses that are generally amortised over their useful lives using the straight-line method. Intangible assets with finite lives are reviewed at each reporting date for indicators of impairment.

Intangible assets with indefinite lives, which are not amortised, are instead tested for impairment at least annually. Any impairment loss identified is recognised in the income statement. Intangibles are recorded on the balance sheet at cost less any accumulated amortisation and any accumulated impairment losses. The residual value and the useful lives of intangible assets are reviewed at each year-end.

2.23 Non-current assets held for sale and discontinued operations

Non-current assets (or a group of assets and liabilities) held for sale are those for which the Bank will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.

A discontinued operation is a part of the Bank that has been disposed of or is classified as held for sale and meets the following criteria:

- it represents a separate major line of business or geographical area of operations;
- it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Non-current assets (or a group of assets) are not depreciated but measured at the lower of its carrying amount and fair value less costs to sell, and are separately presented on the balance sheet.

Gains (losses) on discontinued operations are presented separately in the income statement.

2.24 Other assets

Other receivables arising from the normal course of business and originated by the Bank are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method, less impairments. They are recorded as “Other assets”.

2.25 Deposits from customers

The obligations relating to customer accounts correspond to the amount due at the balance sheet date.

2.26 Debt certificates, subordinated liabilities and other liabilities

Debt certificates, subordinated liabilities and other liabilities are initially recognised at fair value net of direct transaction costs incurred. Subsequently, they are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

2.27 Employee benefits

Pension liabilities

The Bank operates a number of defined benefit and defined contribution plans throughout its global activities, in accordance with local conditions or industry practices. The pension plans are generally funded through payments to insurance companies or trustee administered plans, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age and years of service. A defined contribution plan is a pension plan under which the Bank pays fixed contributions. The Bank will have no legal or constructive obligations to pay further contributions if the assets are not sufficient to pay all employees the benefits relating to employee service in the current and prior periods.

Qualified actuaries calculate the pension assets and liabilities at least annually.

For defined benefit plans, the pension costs and related pension asset or liability are estimated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final liability. Under this method, the cost of providing these benefits is charged to the income statement to spread the pension cost over the service lives of employees. The pension liability is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields on high quality corporate bonds that have terms to maturity approximating the terms of the related liability. The assets of the pension plans are measured at fair value. Net cumulative unrecognised actuarial gains and losses for defined benefit plans exceeding the corridor (greater than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets) are recognised in the income statement over the average remaining service lives of the employees.

All actuarial gains and losses prior to 1 January 2005 have been recognised in the opening balance sheet.

Past-service costs are recognised immediately in the income statement, unless the charges to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Assets that support the pension liabilities of an entity, must meet certain criteria in order to be classified as “qualifying pension plan assets”. These criteria relate to the fact that the assets should be legally separated from the Bank or its creditors. If these criteria are not met, the assets are included in the relevant item on the balance sheet (such as investments, tangible assets, etc.). If the assets meet the criteria, they are netted against the pension liability. The netting also applies to the income statement. If the pension assets qualify, the Bank shows reduced income from assets (such as interests, dividends, etc.) and reduced employee pension costs.

When the fair value of the plan assets is netted against the present value of the obligation of a defined benefit plan, the resulting amount could be negative (an asset). In this case, the recognised asset cannot exceed the total of any cumulative unrecognised net actuarial losses and past service costs, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The contributions of the Bank to defined contribution pension plans are charged to the income statement in the year to which they relate.

Other long-term employee benefits

Benefit plans that provide long-term service benefits, but are not pension plans, are measured at present value using the projected unit credit method.

Employee entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

2.28 Provisions, contingencies, commitments and financial guarantees

Provisions

Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and a reliable estimate can be made at the balance sheet date. Provisions are established for certain guarantee contracts for which the Bank is responsible to pay upon default of payment. Provisions are estimated based on all relevant factors and information existing at the balance sheet date, and typically are discounted at the risk-free rate.

Contingencies

Contingencies are those uncertainties where an amount cannot be reasonably estimated or when it is not probable that payment will be required to settle the obligation.

Commitments

Loan commitments that allow for draw down of a loan within the timeframe generally established by regulation or convention in the market place are not recognised as derivative financial instruments. Loan commitments that are designated as at fair value through profit or loss or where the Bank has a past practice of selling the assets resulting from its loan commitments are recognised on the balance sheet at fair value with the resulting change recognised in the income statement. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are not recognised in the balance sheet and are disclosed as commitments.

Financial guarantees

Financial guarantee contracts that require payments to be made in response to changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, and non-financial variables which are not specific to a party to the contract, are accounted for as derivatives.

2.29 Shareholders' equity

Share capital and treasury shares

Share issue costs

Incremental costs directly attributable to the issue of new shares or share options, other than on a business combination, are deducted from equity net of any related income taxes.

Other equity components

Other items recorded in equity are related to:

- first-time adoption (see 2.3);
- foreign currency (see 2.7);
- cash flow hedges (see 2.14);
- available for sale financial assets (see 2.18).

2.30 Interest income and expense

Interest income and interest expense are recognised in the income statement for all interest-bearing instruments (whether classified as held to maturity, available for sale, held at fair value through profit or loss or derivatives) on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Interest income includes coupons earned on fixed and floating rate income instruments and the accretion or amortisation of the discount or premium.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2.31 Net realised and unrealised gains (losses)

For financial instruments classified as available for sale, realised gains or losses on sales and divestments represent the difference between the proceeds received and the initial book value of the asset or liability sold, less any impairment losses recognised in the income statement after adjusting for the impact of any fair value hedge accounting adjustments. Realised gains and losses on sales are included in the income statement in the caption “net realised capital gains on investments”.

For financial instruments carried at fair value through profit or loss, the difference between the carrying value at the end of the current reporting period and the previous reporting period is included in “other net realised and unrealised gains (losses)”.

For derivatives, the difference between the carrying clean fair value (i.e. excluding the unrealised portion of the interest accruals) at the end of the current reporting period and the previous reporting period is included in “other net realised and unrealised results gains (losses)”.

Previously recognised unrealised gains and losses recorded directly into equity are transferred to the income statement upon derecognition or upon the financial asset becoming impaired.

2.32 Fees and commissions income and transaction costs

Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate. This is the case for origination fees, received as compensation for activities such as evaluating the borrower’s financial condition, evaluating and recording guarantees, etc., and also for origination fees received on issuing financial liabilities measured at amortised cost. Both types of fees are deferred and recognised as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value through profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

Fees are generally recognised as revenue as the services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not considered a derivative, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete.

Loan syndication fees are recognised as revenue when the syndication has been completed.

Transaction costs are included in the initial measurement of financial assets and liabilities other than those measured at fair value through profit or loss. Transaction costs refer to incremental costs directly attributable to the acquisition or disposal of a financial asset or liability. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

2.33 Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset. Capitalisation of borrowing costs should commence when:

- expenditures for the asset and borrowing costs are being incurred; and
- activities necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. Where construction occurs piecemeal and use of each part is possible as construction continues, capitalisation for each part ceases upon substantial completion of that part.

For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

2.34 Tax

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the year in which profits arise. The tax effects of income tax losses available for carry-forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilised.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxes.

Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Current and deferred tax related to fair value re-measurement of available for sale investments and cash flow hedges which are charged or credited directly to equity is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

3 Impact of IFRS on the Consolidated Balance Sheet, Shareholders' Equity and the Consolidated Income Statement of the Bank

The Bank's consolidated financial statements for the year ended 31 December 2005 were drawn up in accordance with the applicable legal and regulatory requirements in Luxembourg. An overview of these accounting principles ("Local Accounting Principles" or "LAP") is given in the Bank's consolidated financial statements for the year ended 31 December 2005. In order to facilitate comparison, the Bank has restated these consolidated financial statements in accordance with IFRS. This note provides further information about the impact of the transition to IFRS.

3.1 Reconciliation of shareholders' equity

The reconciliation of shareholders' equity in the transition from LAP to IFRS are as follows:

	31 December 2005	1 January 2005
Shareholders' equity in LAP	**2,899.7**	**2,584.7**
Financial instruments	614.4	638.3
Provisions	492.1	478.8
Deferred taxes	-295.0	-322.6
"Goodwill" in LAP	176.9	-
Other	-48.5	-37.5
Shareholders' equity in IFRS	**3,839.6**	**3,341.7**

Financial instruments

The main impacts of IFRS on financial instruments may be explained as follows:

Shares and debt securities

Under IFRS, most shares and debt securities are recorded as "available for sale", which are held at fair value and the unrealised gain or loss is recorded in equity. This represents a change compared to LAP, according to which most shares and debt securities were measured at the "lower of cost or market" with a simultaneous use of the "Beibehaltungsprinzip".

Derivatives
Under LAP, derivatives held for risk management purposes were not recorded in the balance sheet, other than as accruals and deferrals on assets and liabilities. Under IFRS, these derivatives must be recorded in the balance sheet at fair value.

Other financial instruments
Under IFRS the Bank has made use of the fair value option, as a result of which certain amounts classified as debt certificates and subordinated liabilities are recorded at fair value through profit or loss.

Provisions
Under IFRS, provisions must be recorded if the Bank has a present obligation as a result of past events, for which it is more likely than unlikely that a future payment will be required to settle the obligation, and that the amount can reliably be estimated.

Under LAP, it is not required to have a present obligation: a provision may be recorded for future identifiable losses or costs, likely or certain at the balance sheet date but for which the amount may not be reliably estimated. For this reason, certain provisions recorded under LAP may not be maintained under IFRS.

Deferred taxes
IAS 12 requires the recognition of all deferred tax liabilities relating to taxable temporary differences. Deferred tax assets may be recognised for taxable losses brought forward and unused tax assets to the extent that it is probable that sufficient future taxable profit will be available to allow the benefit of the deferred tax asset to be utilised. Under LAP, these deferred tax assets and liabilities were not recognised.

Goodwill
Under IFRS, goodwill acquired through business combinations occurring from 2005 are recorded on the asset side of the balance sheet and measured for impairment. Under LAP, goodwill was directly deducted from consolidated reserves.

3.2 Comparison of consolidated balance sheets under LAP and IFRS

The differences between the consolidated balance sheets under LAP and IFRS are as follows:

			31 December 2005
	LAP	IFRS	difference
Assets			
Cash and cash equivalents	378.0	6,640.3	6,262.3
Held for trading financial assets	0.4	529.6	529.2
Loans and receivables to credit institutions	7,213.2	978.1	-6,235.1
Loans and receivables to customers	12,716.7	16,585.6	3,868.9
Investments	17,661.5	17,472.9	-188.6
Accruals and other assets	4,916.5	1,948.4	-2,968.1
Total assets	**42,886.3**	**44,154.9**	**1,268.6**
Liabilities			
Held for trading financial liabilities	-	613.0	613.0
Deposits from credit institutions	8,912.0	8,813.4	-98.6
Deposits from customers	19,721.6	19,473.2	-248.4
Debt certificates	8,657.1	8,436.8	-220.3
Subordinated liabilities	910.0	937.1	27.1
Accruals and other liabilities	1,782.7	2,038.1	255.4
Total liabilities	**39,983.4**	**40,311.6**	**328.2**
Shareholders’ equity	**2,899.7**	**3,839.6**	**939.9**
Minority interest	3.2	3.7	0.5
Total equity	**2,902.9**	**3,843.3**	**940.4**
Total liabilities and equity	**42,886.3**	**44,154.9**	**1,268.6**

			1 January 2005
	LAP	IFRS	difference
Assets			
Cash and cash equivalents	568.4	9,230.3	8,661.9
Held for trading financial assets	1.5	566.8	565.3
Loans and receivables to credit institutions	11,113.7	2,459.4	-8,654.3
Loans and receivables to customers	7,600.0	7,642.9	42.9
Investments	14,156.5	14,734.0	577.5
Accruals and other assets	1,110.9	1,044.7	-66.2
Total assets	**34,551.0**	**35,678.1**	**1,127.1**
Liabilities			
Held for trading financial liabilities	-	485.2	485.2
Deposits from credit institutions	2,729.1	2,703.0	-26.1
Deposits from customers	21,309.5	21,202.1	-107.4
Debt certificates	5,734.1	5,522.2	-211.9
Subordinated liabilities	599.1	687.7	88.6
Accruals and other liabilities	1,574.2	1,708.3	134.1
Total liabilities	**31,946.0**	**32,308.5**	**362.5**
Shareholders' equity	**2,584.7**	**3,341.7**	**757.0**
Minority interest	20.3	27.9	7.6
Total equity	**2,605.0**	**3,369.6**	**764.6**
Total liabilities and equity	**34,551.0**	**35,678.1**	**1,127.1**

The main differences between the consolidated balance sheets under LAP and IFRS may be explained as follows:

Cash and cash equivalents

The main reason for the increase in cash and cash equivalents under IFRS is attributable to investments and loans to credit institutions originally payable within three months which are recorded as cash. Under LAP, these were recorded as part of the respective balance sheet items.

Loans and receivables to customers / Other assets

The increase of loans to customers and vice versa the decrease in other assets relates to the reclassification of several leasing agreements which are treated as finance leases under IFRS, but were recorded as operational leases in “tangible assets” under LAP.

Held for trading financial assets and liabilities

Held for trading financial assets and liabilities under IFRS mainly relate to the recognition in the balance sheet of derivatives for risk management purposes.

3.3 Reconciliation of net profit attributable to shareholders

The impact of the transition from LAP to IFRS on the consolidated income statement and the net profit attributable to shareholders are as follows:

	Period 2005
Net profit attributable to shareholders under LAP	**497.4**
Financial instruments	-54.3
Provisions	-6.0
Employee benefits	3.8
Changes in scope of consolidation	4.6
Taxes	29.7
Other	-10.4
Net profit attributable to shareholders under IFRS	**464.8**

Financial instruments

Under LAP, most shares and debt securities were measured at the "lower of cost or market value" with a simultaneous use of the "Beibehaltungsprinzip", which could lead to recognition of significant reversals of impairments in the case of a sale of securities at a higher price than the lowest market price registered at previous year end closings. These reversals may not be recorded under IFRS as the unrealised revaluations are recognised directly in equity.

Deferred taxes

IAS 12 requires the recognition of all deferred tax liabilities relating to taxable temporary differences. Deferred tax assets may be recognised for taxable losses brought forward and unused tax assets to the extent that it is probable that sufficient future taxable profit will be available to allow the benefit of the deferred tax asset to be utilised. Under LAP, these deferred tax assets and liabilities were not recognised.

3.4 Comparison of the consolidated income statement under IFRS and LAP

	LAP	IFRS	Period 2005 difference
Interest and similar income	2,011.4	2,030.1	18.7
Interest expense and similar charges	-1,598.7	-1,462.9	135.8
Net fees and commissions	280.7	265.0	-15.7
Net realised capital gains on investments and other net realised and unrealised gains (losses)	50.7	72.9	22.2
Other income	988.8	152.2	-836.6
Amortisation of tangible and intangible assets	-653.5	-52.7	600.8
Other charges	-467.0	-459.2	7.8
Profit before tax	**612.4**	**545.4**	**-67.0**
Tax expense	-114.8	-80.5	34.3
Net profit for the year	**497.6**	**464.9**	**-32.7**
Minority interest	0.2	0.1	-0.1
Net profit attributable to shareholders	**497.4**	**464.8**	**-32.6**

The differences between LAP and IFRS in 2005 mainly relate to the reclassification of several leasing agreements which were considered as operational lease agreements under LAP, but are considered as finance leases under IFRS. This change has generated a decrease in lease income recorded as “Other income” set off by a decrease in the amortisations of tangible assets and a higher interest margin.

4 Consolidation Scope

In 2005, following the split of EuroLease-Factor SA into Fortis Lease Luxembourg SA and Fortis Commercial Finance SA, the Bank sold its interest in Fortis Commercial Finance SA to Fortis Commercial Finance Holding NV.

As part of the reorganisation of the Fortis group's leasing operations, the Bank acquired with effect from 1 January 2005 from Fortis Bank SA (Belgium) the company Fortis Lease SA including its subsidiaries in Belgium and Poland as well as Fortis Lease UK Ltd, Fortis Lease Holdings UK Ltd, Fortis Lease (France) SA, Fortis Lease Immobilier France SA, Fortis Lease (Nederland) NV, Fortis Lease Deutschland AG, Fortis Lease Iberia E.F.C. SA and Fortis Lease Italia S.p.A.

The Bank also acquired with effect from 1 January 2005 Austrolease S.p.A. and Fortis Lease S.p.A. and set up through its subsidiary Fortis Lease Group SA: Fortis Lease Portugal, Instituição Financeira de Crédito SA, Fortis Lease Czech s.r.o. and Fortis Lease Switzerland AG.

With effect from 1 January 2006, the Bank acquired from Fortis Bank SA (Belgium) the company Dryden Bank SA in Switzerland in order to merge this entity with Fortis Banque Suisse SA as well as Fortis Finansal Kiralama AS. It has moreover acquired Dreieck Industrie Leasing AG and Fortis Lease Hungaria PCL through its subsidiary Fortis Lease Group SA.

Dreieck Industrie Leasing AG was then merged with Fortis Lease Suisse SA. Batical SA and Fortis Lease Immobilier France SA have been merged with Fortis Lease France SA. Austrolease S.p.A. has merged with Fortis Lease S.p.A.

As at 25 October 2006, the Bank sold to Fortis Bank SA (Belgium) its interest in BG Ré SA.

The Bank has moreover agreed with An Post in Ireland to set up a company under common control which will become operational in 2007 and which will be accounted for under the equity method.

Fully consolidated companies:

Name	Registered office	Activity	Percentage of capital hold 2006	2005
ACE EQUIPMENT LEASING N.V. (*)	BERCHEM-SAINT-AGATHE (B)	Leasing	100.00%	100.00%
ACE LEASING N.V. (*)	BERCHEM-SAINT-AGATHE (B)	Leasing	100.00%	100.00%
AUSTROLEASE S.P.A.	BOLZANO (I)	Leasing		100.00%
BATICAL S.A.	NANCY (F)	Leasing		100.00%
BG RE S.A.	LUXEMBOURG	Reinsurance		99.98%
COFHYLUX S.A.	LUXEMBOURG	Real estate company	100.00%	100.00%
DALGARNO S.A.	LUXEMBOURG	Financing vehicle	100.00%	99.97%
DELVINO S.A.	LUXEMBOURG	Financing vehicle	100.00%	99.97%
DREIECK EQUIPMENT LEASING AG (*)	ZURICH (CH)	Leasing	43.00%	
DREIECK ONE Ltd(*)	GEORGES TOWN (CAYMAN ISLANDS)	Leasing	100.00%	
ES-FINANCE N.V. (*)	BERCHEM-SAINT-AGATHE (B)	Leasing	100.00%	100.00%
FAM FUND ADVISORY S.A.	LUXEMBOURG	Advisory company	100.00%	100.00%
FAM PERSONAL FUND ADVISORY S.A.	LUXEMBOURG	Advisory company	100.00%	100.00%
FBL FINANCE S.A. (Formerly BGL FINANCE HOLDING S.A.)	LUXEMBOURG	Financial institution	99.99%	99.99%
F.L. ZEEBRUGGE N.V. (*)	BERCHEM-SAINT-AGATHE (B)	Leasing	100.00%	100.00%
FOLEA VERWALTUNGS GmbH (*)	BERLIN (D)	Leasing	100.00%	
FOLEA GRUNDSTÜCKSVERWALTUNGS UND VERMIETUNGS GmbH & CO. (*)	BERLIN (D)	Leasing	90.00%	
FORTIS BANQUE (SUISSE) S.A.	GENEVA (CH)	Banque	99.98%	99.98%
FORTIS FINANSAL KIRALAMA A.S. (*)	ISTANBUL (TK)	Leasing	100.00%	
FORTIS LEASE (B) S.A. (*)	BERCHEM-SAINT-AGATHE (B)	Leasing	100.00%	100.00%
FORTIS LEASE C.T. S.A. (*)	BRUSSELS (B)	Leasing	100.00%	100.00%
FORTIS LEASE CZECH LLC.(*)	PRAGUE (CZ)	Leasing	100.00%	100.00%
FORTIS LEASE DEUTSCHLAND AG (*)	DÜSSELDORF (D)	Leasing	100.00%	100.00%
FORTIS LEASE FRANCE S.A. (*)	PUTEAUX (F)	Leasing	100.00%	100.00%
FORTIS LEASE GROUP S.A.	LUXEMBOURG	Leasing	100.00%	100.00%
FORTIS LEASE GROUP SERVICES S.A./N.V. (*)	BRUSSELS (B)	Leasing	100.00%	99.79%
FORTIS LEASE HOLDINGS UK Ltd (*)	LONDON (GB)	Leasing	100.00%	100.00%
FORTIS LEASE HUNGARIA PCL (*)	BUDAPEST (H)	Leasing	100.00%	
FORTIS LEASE HUNGARIA REAL ESTATE PCL (*)	BUDAPEST (H)	Leasing	100.00%	
FORTIS LEASE IBERIA E.F.C. S.A. (*)	BARCELONA (E)	Leasing	78.61%	100.00%
FORTIS LEASE IMMOBILIER FRANCE S.A.	PUTEAUX (F)	Leasing		100.00%
FORTIS LEASE ITALIA S.P.A.	ASSAGO (I)	Leasing	100.00%	100.00%
FORTIS LEASE LUXEMBOURG S.A. (*)	LUXEMBOURG	Leasing	100.00%	100.00%
FORTIS LEASE NEDERLAND N.V. (*)	HERTOGENBOSCH (NL)	Leasing	100.00%	100.00%
FORTIS LEASE POLSKA Sp. Z.o.o. (*)	WARSAW (PL)	Leasing	100.00%	100.00%
FORTIS LEASE PORTUGAL S.A. (*)	LISBON (P)	Leasing	100.00%	100.00%
FORTIS LEASE S.P.A. (*)	TREVISO (I)	Leasing	100.00%	100.00%
FORTIS LEASE SUISSE S.A. (*)	LAUSANNE (CH)	Leasing	100.00%	99.96%
FORTIS LEASE UK Ltd (*)	LONDON (GB)	Leasing	100.00%	100.00%

			Percentage of capital hold	
Name	**Registered office**	**Activity**	**2006**	**2005**
FUNDAMENTUM ASSET MANAGEMENT S.A. (FAM)	LUXEMBOURG	Asset management	96.54%	100.00%
INTERNAXX BANK S.A.	LUXEMBOURG	Bank	75.00%	75.00%
MORAY INVESTMENTS LLP S.à r.l.	LUXEMBOURG	Financing vehicle		100.00%
PATTISON S.à r.l.	LUXEMBOURG	Financing vehicle	100.00%	
PBI HOLDING AG	ZUG (CH)	Financial institution	100.00%	100.00%
SOCIETE ALSACIENNE DE DEVELOPPEMENT ET D'EXPANSION S.A. (SADE)	STRASBOURG (F)	Bank	100.00%	100.00%

(*) Companies held through a subsidiary, but directly consolidated by the Bank.

Companies accounted for under the equity method:

			Percentage of capital hold	
Name	**Registered office**	**Activity**	**2006**	**2005**
BIP INVESTMENT PARTNERS S.A.	LUXEMBOURG	Investment company	25.80%	41.60%
CACEIS FASTNET S.A. (Formerly FASTNET FRANCE S.A.)	PARIS (F)	Administration of UCIT's	6.99%	11.43%
FASTNET BELGIUM S.A.	BRUSSELS (B)	Administration of UCIT's	47.80%	47.80%
FASTNET EUROPE S.A.	LUXEMBOURG	Administration of UCIT's		28.00%
FASTNET LUXEMBOURG S.A.	LUXEMBOURG	Administration of UCIT's	47.79%	47.80%
FASTNET NEDERLAND N.V.	AMSTERDAM (NL)	Administration of UCIT's	47.84%	47.80%
FORTIS INTERTRUST GROUP HOLDING S.A. (Formerly MEESPIERSON INTERTRUST GROUP HOLDING S.A.)	GENEVA (CH)	Financial institution	25.04%	25.04%
FORTIS INVESTMENT MANAGEMENT S.A. (FIM)	BRUSSELS (B)	Asset management	25.01%	25.01%
FORTIS LUXEMBOURG-VIE S.A.	LUXEMBOURG	Insurance	50.00%	50.00%
MARIE LEASE S.à r.l.	LUXEMBOURG	Leasing	50.00%	
NISSAN FINANCE BELGIUM N.V.	BRUSSELS (B)	Leasing	25.00%	25.00%

Information which is of negligible interest in giving a true and fair view of the accounts has not been disclosed.

Assets and liabilities of acquisitions and divestments

Divestments of entities did not have a significant impact on the consolidated financial statements. The table below provides details on the assets and liabilities of the acquired subsidiaries.

	2006	2005
Cash and cash equivalents	74.9	115.6
Financial assets held for trading	12.1	0.1
Loans to credit institutions	6.8	328.8
Loans to customers	765.4	6,049.8
Financial assets available for sale	0.2	0.1
Shares accounted for under equity method		0.9
Investment proprerty	0.1	146.8
Tangible assets	1.6	13.8
Goodwill and other intangible assets	34.6	30.7
Other assets	28.1	102.7
Prepayments and accrued income	5.3	81.7
Financial liabilities held for trading	5.0	2.7
Due to credit institutions	537.0	5,913.2
Due to customers	187.1	21.3
Debt certificates	0.1	423.6
Current and deferred tax liabilities	11.8	25.0
Provisions	1.4	1.9
Other liabilities	75.2	185.4
Accruals and deferred income	13.3	177.5
Minority interests	0.9	-20.1
Net assets acquired	**97.3**	**140.5**
Positive goodwill	15.2	176.4
Negative goodwill	-1.1	
Cash used for acquisitions		
Purchase consideration	-111.4	-316.9
Less: Cash and cash equivalents acquired	74.9	115.6
Cash used for acquisitions	**-36.5**	**-201.3**

The Bank has applied IFRS 5 “Non-current assets held for sale and discontinued operations”, since 1 January 2005. At year ends 2005 and 2006, the Bank had neither assets nor activities to which IFRS 5 is applicable.

5 Shareholders' Equity

The following table shows the composition of shareholders' equity at 31 December 2006:

Share capital	
- Ordinary shares: 13,732,035 shares	
(on an authorised maximum of 15,000,000 shares)	350.0
Share premium reserve	633.5
Revaluation reserves	224.9
Foreign currency translation	-1.8
Other reserves	1,838.7
Net profit attributable to shareholders	672.2
Shareholders' equity	**3,717.5**

5.1 Revaluation reserves included in shareholders' equity

The table below shows the changes in revaluation reserves included in shareholders' equity for 2006 and 2005:

	Available for sale financial assets	Cash flow hedges	Total
Balance at 1 January 2005			
Gross amount	419.4		419.4
Deferred taxes	-68.7		-68.7
Subtotal	**350.7**		**350.7**
Changes:			
Unrealised during the year	1.7	1.6	3.3
Reversal of revaluation reserves because of sales	16.1		16.1
Other			
Gross change	**17.8**	**1.6**	**19.4**
Deferred taxes	9.6	-0.5	9.1
Balance at 31 December 2005	**378.1**	**1.1**	**379.2**
Gross amount	437.2	1.6	438.8
Deferred taxes	-59.1	-0.5	-59.6
Balance at 31 December 2005	**378.1**	**1.1**	**379.2**

	Available for sale financial assets	Cash flow hedges	Total
Balance at 1 January 2006			
Gross amount	437.2	1.6	438.8
Deferred taxes	-59.1	-0.5	-59.6
Subtotal	**378.1**	**1.1**	**379.2**
Changes:			
Unrealised during the year	-91.2	-0.2	-91.4
Reversal of revaluation reserves because of sales	-81.2		-81.2
Other	-13.6		-13.6
Gross change	**-186.0**	**-0.2**	**-186.2**
Deferred taxes	31.8	0.1	31.9
Balance at 31 December 2006	**223.9**	**1.0**	**224.9**
Gross amount	251.2	1.4	252.6
Deferred taxes	-27.3	-0.4	-27.7
Balance at 31 December 2006	**223.9**	**1.0**	**224.9**

The line “Other” relates to an adjustment on the accounts of a company which is accounted for under the equity method.

5.2 Dividends

Dividend proposal for 2006

The Board of Directors will propose to the General Meeting of Shareholders on 5 April 2007 to pay a dividend of EUR 31.50 per share, thus a total dividend of EUR 432,559,102.50. As an interim dividend of EUR 25.50 per share was paid on 20 November 2006, the final dividend will amount to EUR 6 per share and will be payable on 11 April 2007.

6 Minority Interest

As at 31 December 2006, the amount of EUR 9.8 million in “Minority interest” mainly relates to the interest of minorities in the shareholders’ equity of Fortis Lease Iberia E.F.C. SA and Internaxx Bank SA.

As at 31 December 2005, the amount of EUR 3.7 million in “Minority interest” mainly relates to the interest of minorities in the shareholders’ equity of BG Ré SA and Internaxx Bank SA.

7 Risk Management

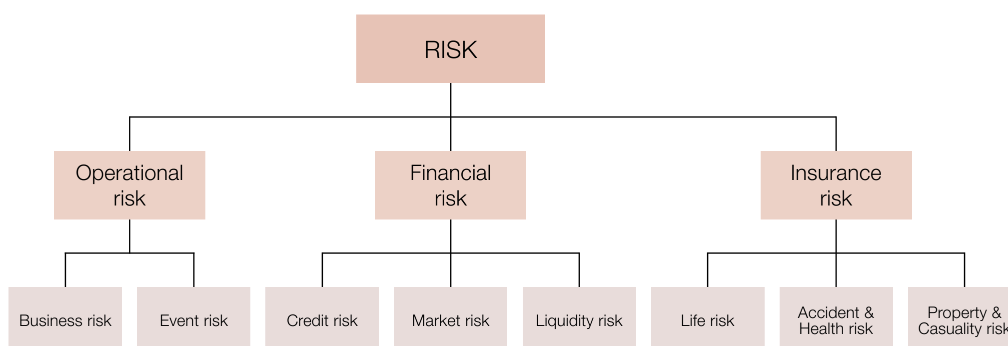
7.1 Introduction

Advanced risk management is required for achieving sustainable profitable growth. The Bank recognises this and considers its risk management practice to be one of its core competencies. The Bank continuously reviews and upgrades its risk management framework in order to align it with developments in the field and lessons learned in their own practice. Being able to demonstrate that adequate risk management procedures are in place is key to building and keeping the confidence of all external stakeholders: customers, analysts, investors, regulators and rating agencies.

The risk management chapter provides an overview on the various types of risks to which the Bank is exposed and summarises in a risk taxonomy which explains:
- its risk management philosophy;
- its risk management organisation;
- its risk management approach for each of the various types of risks the Bank faces, including a quantitative and qualitative view on the risk exposure.

7.2 Risk Taxonomy

The Bank uses a standardised risk taxonomy, aligned within Fortis group, which differentiates between 3 major categories of risks: operational, financial and the insurance risks. The latter risk is however less applicable for the Bank compared to the group.



Operational risk

All companies face operational risks due to the inherent uncertainty in their operating activities, due either to external factors or to uncontrolled internal factors. For the purposes of reporting and monitoring, this risk is divided into event risk and business risk.

Event risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. Event risk is originated in the company and can be limited through appropriate management processes and controls.

Business risk is the risk of loss due to changes in the environment or disfunctionings that damage the franchise or operating economics of a business. Typically, the impact is seen through variation in volume, pricing or margins relative to a fixed cost base. Business risk is externally driven, but can be mitigated by effective management practices.

Financial risk

Financial Risk encompasses three types of risk: credit risk, market risk and liquidity risk.

Credit risk arises when a customer or a counterpart is no longer able to meet its obligations under contract. This failure may be caused either by the customer's or the counterparty's insolvency or government restrictions on capital transfers. Credit risk arises in lending and investing activities. All businesses of the Bank use appropriate instruments, policies and processes to manage credit risk including maintenance of a fully independent credit approval process with set creditworthiness limits and oversight procedures. To manage the concentration of credit risk, the Bank's credit risk management policy aims to spread the credit risk across several sectors and countries.

Market risk relates to the potential loss resulting from unfavourable market movements, which can arise from trading or holding investments in financial instruments. The Bank subdivides market risk into two types, the "Asset and Liability Management risk" or "ALM" (risk on the banking book) and trading risk. The ALM risk concerns the risk in value on the banking book, compared to the equity risk, interest risk and foreign currency risk. The trading risk relates to the risk in value taken on the trading positions of the bank in the context of the evolution of the financial markets.

Liquidity risk refers to a situation where any subsidiary of the Bank is unable to meet the cash demands of its customers or counterparties without suffering unacceptable losses in realising assets to fund its financial obligations as and when they fall due, both under normal and difficult circumstances. It is the risk that the Bank does not have sufficient financial resources available to meet its obligations when they fall due, or is able to secure or sell its assets only at excessive cost.

7.3 Risk management philosophy

The Bank particularly appreciates the management of the risks which it has to challenge. Such strict management of risks, which is reflected in the financial stability of the Bank, is the guarantee for the confidence of its customers and counterparties.

The different types of risks are monitored and managed by specific dedicated committees. Besides the verification of the risk limits assigned to the various operations, certain functions of the Bank are responsible for providing the necessary analysis for taking decisions of financial risk management. The methologies for risk analysis make more and more use of quantitative models and are founded on specific dedicated information systems and calculators. Methodologies and systems are continuously improved.

The risk policy provides the principles for the management and control of the Bank's risks. It applies to the operations of the Bank which involve market risk or credit risk and includes elements for the management of operational risk. They include the operations relating to lending, the Merchant bank activities and the Asset & Liability Management relating to own investments of the Bank. The limits and guidelines of the different operations are regularly reviewed in order to allow an efficient management of the balance sheet. These limits are fixed with regard to the equity and the performance targets of the Bank.

7.4 Risk management organisation

Credit risk

The Bank's credit risk is controlled by the Central Credit Committee, which meets on a weekly basis. Its competencies comprise the power to approve the most important individual credit files. It has also the power to decide on the criteria and conditions for the raising of credit and the termination or suspension of a credit. Specific committees such as Merchant banking, as well as Retail, Commercial & Private Banking handle matters and affairs which are not of the exclusive competence of the Management board or the Central Credit Committee.

Market risk

The ALCO committee (Asset & Liability Committee), which meets on a bi-weekly basis, is responsible for the management of the balance sheet within the global limits set up in the risk policy and the targets and strategies fixed by the Management board. Structural changes to the balance sheet and the off-balance sheet are decided based on the perspective evolution of financial markets. Every product or activity which contains market risk, including also the limits of the trading activities, is to be validated by the ALCO committee. The ALCO committee is assisted by the operational ALCO committee, which meets on a bi-weekly basis, responsible for the regular management of investments and the mid and long term funding of the Bank.

Operational risk

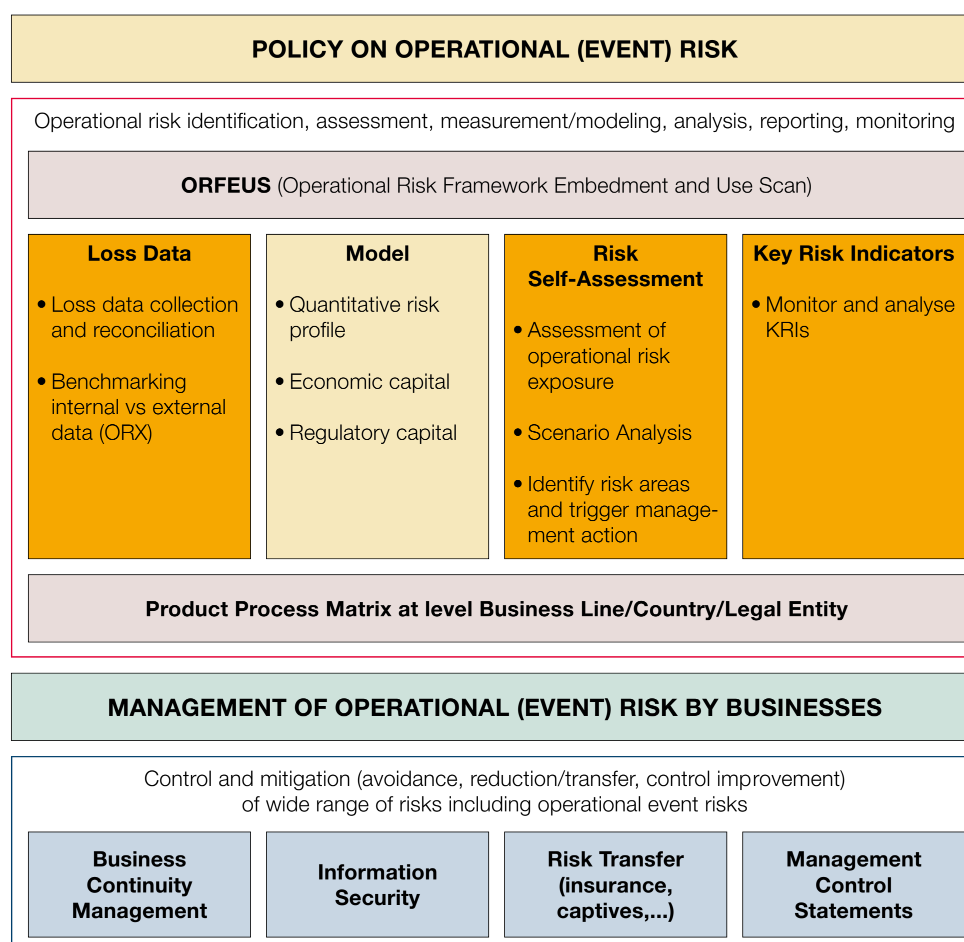
The ORC committee ("Operational Risk Committee"), which meets on a quarterly basis, is responsible for the monitoring and management of the operational risk of the Bank. Its principal missions are to establish the strategy and policy regarding the operational risk based on the group's standards and national discretions, to follow the status of the internal control and to coordinate the measures taken in the context of the business continuity plan and information security. The ORC committee is assisted by the OCC committee ("Operational Risk Coordination Committee", bi-quarterly meetings) comprising all business correspondents in charge of the management of operational risk.

7.5 Operational risk management

Operational losses for event risk may be classified into eight different categories, as for example internal or external fraud, customer practices, products, services, damages to physical assets, interruptions of operations or the interruption of systems.

Fortis group has opted for the advanced Basle II approach (called AMA) and is therefore implementing a full set of instruments to measure and manage operational risk. A complete operational risk management framework, covering all dimensions of operational risk, has therefore been defined: this framework encompasses policies for managing operational risk, the collection of loss events, Risk Self-Assessments, scenario analyses, Key Risk Indicators, scans, business continuity management, information security, risk transfer management and finally the signing of management control statements for operational risks.

The framework is presented in the schematic format below:



Businesses and subsidiaries start by collecting their operational losses in order to analyse and identify the underlying reasons. These losses serve as a quantitative basis to the modeling of a statistical distribution of operational losses and to the calculation of an Operational **Value-at-risk**, including also the qualitative elements such as the **R**isk **S**elf-**A**ssessments (RSA) and the **K**ey **R**isk **I**ndicators (KRI). It is in this context that RSA's are performed in all businesses and subsidiaries of the Bank in order to identify potential operational risks. Loss data collection is supplemented by external data through the ORX (**O**perational **R**isk data

e**X**change Association), which Fortis co-founded. In ORX, members exchange loss data information in a standardised, anonymous and quality-assured form.

The Bank has installed various processes in order to control and mitigate operational risks which are described hereafter.

The **B**usiness **C**ontinuity **M**anagement (BCM) is characterised by the implementation of measures ensuring the continuity of operations. The approach followed by Fortis in this context is aligned to existing regulations. In recognition of Fortis's growth, increasing complexity in process interactions and rising expectations on the part of stakeholders such as suppliers, customers and regulators, the BCM Policy and Implementation Guide are reviewed on a regular basis. Each business, horizontal function and country is responsible for its own Business Continuity Plan (BCP). On the basis of local information received, ORM (**O**perational **R**isk & **M**anagement Control) creates an oversight and reviews/monitors the Business Continuity organisation, implementation, testing, incidents and residual risks.

The Bank has defined a structured information security approach in the **F**ortis **I**nformation **S**ecurity **P**olicy (FISP). It defines the framework, the organisation and the responsibilities with regard to policy implementation. Mandatory security directives that apply to the entire Fortis group and to third parties with which the Bank exchanges information are also added. The Information Security Policy Reference document and the practical measures for Fortis, are based on best international practices described in the ISO/IEC 17799 Standard.

In accordance with industry practice, Fortis has acquired insurance policies, in order to transfer operational risks, issued by third-party insurers and partly also through its captive reinsurance companies, which provide cover for claims and losses arising from the provision of professional services.

Whereas the management of operational risks (Operational Risk Management) is based on the event risk at the operations level, the Operational Risk Management Control and the Internal Control also focus on business risks (including strategic and reputational risks).

Each business unit of the Bank is assisted by central **O**perational **R**isk & **M**anagement Control which coordinates and facilitates the different initiatives. ORM is also responsible for the coordination of Internal Control.

7.6 Financial risk management

As a financial institution, the Bank is faced in particular with a variety of financial risks. The management of credit risk, market risk and liquidity risk is discussed extensively below.

7.6.1 Credit risk

Credit risk management
Credit risk management within Fortis group is governed by one policy, the **Fortis Credit Policy**. The Fortis Credit Policy contains a set of principles, rules, guidelines and procedures for identifying, measuring, approving and reporting credit risk within Fortis. The Fortis Credit Policy establishes a consistent framework for all credit risk-generating activities, either through direct lending relationships or through other activities resulting in credit risk such as investment activities or reinsurance claims.

The basis for effective credit risk management is the **identification of existing and potential credit risk** inherent in any product or activity. This process includes the gathering of all relevant information concerning the product offered, the counterparties involved and all elements that may influence credit risk.

Assessing the credit risk of a proposed agreement consists of:
- analysis of the probability that the counterparty will fail to meet its obligations, including the risk classification on the Fortis Master scale;
- analysis of the possibilities of fulfilling the counterparty's obligations by some other means in the event that the counterparty fails to meet its obligations by itself;
- formulation of an independent and substantiated opinion.

In the context of the Credit Risk Policy, counterparty acceptance criteria have been defined, which sets out the conditions required for accepting a credit request. These conditions reflect the general acceptable credit risk profile that the Bank has determined.

The Bank only grants credit to customers who present, to the Bank's opinion, a low probability of insolvency. The counterparty acceptance criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as of the purpose and structure of the credit and the source of its repayment.

The **credit allowance decision** is taken by authorised persons or committees. The delegation rules organise and condition the decision-making process regarding the acceptance and management of counterparty risk. The underlying principle in the setting of these rules is the need to strike an optimum balance (in terms of overall profitability) between two opposite drivers: the maximising of the decision-taking autonomy of the businesses and the reduction of counterparty risk.

Credit analysis and credit allowance decision apply to any new transaction or change of a transaction comprising a credit risk, as well as to regular reviews of existing credit risk. **The monitoring of credit risk** is a permanent and automatic control which is performed on credit exposures and events with the primary purpose of early detection and reporting of potential credit problems. **Risk surveillance** consists of the daily monitoring of all indi-

vidual credit risks. Comprehensive procedures and information systems monitor the condition of individual credits and single counterparties across the various portfolios. These procedures define criteria for identifying and reporting potential problem credits in order to ensure that they are subject to proper monitoring, possible corrective action and classification.

Impaired credits are transferred to "**Intensive Care**" or to "**Recovery**". Intensive Care develops strategies to rehabilitate an impaired credit or to increase the final repayment. Intensive Care also provides valuable input and assistance to the businesses in dealing with non-impaired problem loans. The Intensive Care function is segregated from the area that originated the credit. In the event that a counterparty fails to meet its obligations and is considered to be unable to meet them in future, all other means have to be applied in order to fulfil this counterparty's obligations towards the Bank such as selling or realising receivables, collateral or guarantees.

Credit risk exposure

The Bank's overall credit risk exposure (gross) as at 31 December 2006 and 31 December 2005 can be summarised as follows:

	2006	2005
Cash and cash equivalents	**6,406.5**	**6,640.3**
Held for trading financial assets		
- Debt securities	18.0	37.2
- Derivatives	491.0	478.5
Total held for trading financial assets	**509.0**	**515.7**
Loans and receivables to credit institutions		
- Interest bearing deposits	15.2	149.0
- Loans and receivables	583.7	467.5
- Reverse repurchase agreements	3,355.7	
- Other	909.5	361.9
Total loans and receivables to credit institutions	**4,864.1**	**978.4**
Loans and receivables to customers		
- Government and official institutions	286.1	319.2
- Residential mortgages	2,751.3	2,163.3
- Consumer loans	1,233.2	1,191.1
- Commercial loans	5,156.2	4,211.7
- Reverse repurchase agreements	1,143.6	1,211.9
- Other	10,155.3	7,684.0
Total loans and receivables to customers	**20,725.7**	**16,781.2**
Interest bearing investments		
- Government bonds	6,500.8	6,403.3
- Corporate debt securities	7,341.8	7,193.7
- Mortgage backed securities	1,725.3	1,808.9
- Other asset backed securities	439.1	489.9
Total interest bearing investments	**16,007.0**	**15,895.8**
Total on-balance sheet credit risk exposure	**48,512.3**	**40,811.4**
Off-balance sheet credit commitments exposure	12,882.1	7,316.0
Total credit risk exposure	**61,394.4**	**48,127.4**

The off-balance sheet credit commitments exposure is as follows:

	2006	2005
Granted and confirmed credit lines: available amounts		
- Banks – Credit lines	375.7	314.4
- Customers – Loans – Government and official institutions	145.1	114.3
- Customers – Loans – Mortgage loans	370.9	252.7
- Customers – Loans – Consumer loans	472.4	225.9
- Customers – Loans – Commercial loans	4,811.1	4,730.1
- Customers – Loans – Other	20.2	23.1
Total granted and confirmed credit lines: available amounts	**6,195.4**	**5,660.5**
Credit commitments		
- Guarantees – Letters of credit – Credit substitutes	6,027.6	1,129.4
- Banker's acceptances	72.6	
- Documentary credits given	40.8	41.3
- Other credit commitments	545.7	484.8
Total credit commitments	**6,686.7**	**1,655.5**
Total off-balance sheet commitments	**12,882.1**	**7,316.0**

Liquidity constraints set to meet guarantee recourses or credit commitments are largely lower than the amount of contractual outstandings, whereas a lot of these commitments will expire or will be terminated without requiring funding.

Credit risk concentration may only be accepted if:

- the maximum loss which might occur does not compromise the financial strength of the Bank nor its capacity to continue the operations of its main businesses;
- the amount of the maximum loss authorised is estimated at least at the level of probability fixed by the Bank.

Fortis group applies the "total one obligor" concept. This implies that groups of connected counterparties are regarded as a single counterparty in the management of credit risk. To manage the concentration of credit risk, Fortis's credit risk management policy aims to spread the credit risk across several sectors and countries.

The table below shows the industry concentration of the customer credit portfolio as at 31 December 2006 and 2005:

	2006		2005	
	in absolute	in %	in absolute	in %
Agriculture, forestry and fishing	187.1	0.9%	171.4	1.0%
Energy and water	71.9	0.3%	68.5	0.4%
Metallurgic & non-metallic minerals	41.3	0.2%	139.9	0.8%
Chemicals and plastics	355.6	1.7%	147.0	0.9%
Metal works	331.8	1.6%	428.4	2.6%
Other manufacturing	675.1	3.3%	579.4	3.5%
Construction and engineering	1,358.3	6.6%	757.7	4.5%
Distribution, hotels and catering	1,857.5	9.0%	874.7	5.2%
Transport	2,937.1	14.2%	2,166.2	12.9%
Communication	119.9	0.6%	91.7	0.5%
Real estate	2,765.1	13.3%	1,599.7	9.5%
Shipping	124.2	0.6%	65.1	0.4%
Trade and commodity finance	90.6	0.4%	188.7	1.1%
Other services	2,988.9	14.4%	2,602.7	15.5%
Public administrations	96.0	0.5%	118.0	0.7%
Government and official institutions	286.1	1.4%	319.2	1.9%
Financial institutions & services to firms (incl. Insurance)	2,315.7	11.2%	1,485.1	8.8%
Central banks and monetary intermediates	242.0	1.2%	33.3	0.2%
Private persons	3,881.5	18.6%	3,391.4	20.2%
Unclassified			1,553.1	9.4%
Total	**20,725.7**	**100%**	**16,781.2**	**100%**

The geographical distribution of the Bank's credit risk exposure can be presented based on the location of the Bank's subsidiary involved or based on the location of the customer.

The table below shows the concentration of the on-balance sheet credit risk based on the location of the Bank's subsidiary at 31 December 2006 and 31 December 2005:

	2006		2005	
	Carrying value	%	Carrying value	%
Benelux	40,567.0	83.6%	34,937.0	85.6%
Other European countries	7,945.3	16.4%	5,874.4	14.4%
Total	**48,512.3**	**100%**	**40,811.4**	**100%**

The table below sets out the concentration of credit risk as at 31 December 2006 and 31 December 2005 by location of the customer:

	2006		2005	
	Carrying value on balance sheet	%	Carrying value on balance sheet	%
Benelux	24,737.6	51.0%	19,632.5	48.1%
Other European countries	20,954.7	43.2%	16,250.2	39.8%
North America	2,126.5	4.4%	2,390.7	5.9%
Asia	188.9	0.4%	198.6	0.5%
Other	504.6	1.0%	2,339.4	5.7%
Total	**48,512.3**	**100%**	**40,811.4**	**100%**

The table below provides information at year end on concentration of credit risk by location of customer and type of counterparty:

2006	Government and official institutions	Financial Institutions	Corporate customers	Retail customers	Other	Total
On-balance sheet						
Benelux	1,409.1	10,484.7	9,633.8	2,951.5	258.5	24,737.6
Other European countries	5,612.1	4,068.6	10,201.7	1,035.9	36.4	20,954.7
North America	657.1	849.1	615.0	5.3		2,126.5
Asia	47.1	63.7	72.3	5.8		188.9
Other	19.0	275.4	192.6	17.6		504.6
Total on-balance sheet	**7,744.4**	**15,741.5**	**20,715.4**	**4,016.1**	**294.9**	**48,512.3**
Off-balance sheet						
Benelux	145.5	624.5	9,312.0	530.7	345.1	10,957.8
Other European countries			1,567.2	73.7	257.1	1,898.0
North America			7.2	0.8	0.1	8.1
Asia				0.6		0.6
Other			17.0	0.6		17.6
Total off-balance sheet	**145.5**	**624.5**	**10,903.4**	**606.4**	**602.3**	**12,882.1**

Policies related to individual counterparties identify groups of counterparties, financing techniques or products, which require special treatment and/or restricted delegation rules on decision-making in the credit-granting and management process.

The principles of those policies have been set up from the perspective of general prudence in order to decrease counterparty default risk and to control, manage and minimise the reputation risk in the credit-granting activity.

Credit Risk rating is a classification that results from a qualified assessment and formal evaluation, based on:

- analysis of each obligor's financial history, specifically regarding its ability to meet debt obligations and insolvency probability;
- the quality and safety of an asset (debt or equity securities), based on the issuer's financial condition indicating the likelihood that a debt issuer will be able to meet scheduled interest and principal repayments.

The Fortis Master scale ranges from 0 to 20 and gives an indication of the probability that a counterparty will default within one year. Master scale ratings from 0 to 7 are investment grade ratings, 8 to 17 are sub-investment grade ratings and 18 to 20 are impaired loans ratings.

The following table outlines the credit quality by investment grade of the Bank's debt securities at 31 December, based on external ratings:

	2006		2005	
	Carrying value	%	Carrying value	%
Investment grade				
AAA	5,664.8	35.4%	5,569.1	35.1%
AA	5,877.2	36.7%	5,312.7	33.4%
A	3,974.0	24.8%	4,427.3	27.9%
BBB	446.0	2.8%	496.6	3.1%
Investment grade	**15,962.0**	**99.7%**	**15,805.7**	**99.5%**
Below investment grade	14.0	0.1%	47.5	0.3%
Unrated	30.4	0.2%	37.4	0.2%
Total net investments in interest bearing securities	**16,006.4**	**100.0%**	**15,890.6**	**100.0%**
Impairments	0.6		5.2	
Total gross investments in interest bearing securities	**16,007.0**		**15,895.8**	

Problem loans are exposures:

- for which signals have been detected indicating that the counterparty is risk not meeting its obligations;
- for which the counterparty already does not meet its obligations.

Impaired outstanding

A financial asset will be classified as impaired if one or more loss events are identified which have a negative impact on the estimated future cash flows related to that financial asset. Events that can be considered as loss events include situations where:

- the counterparty is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising collateral;

- the counterparty has a material credit obligation which is past due for more than 90 days (overdrafts will be considered as being overdue once the customer has breached an advised limit or been advised of a limit smaller than that currently outstanding).

In practice, Fortis group uses a set of obligatory and judgement-based triggers that can lead to classification as impaired. These triggers are complementary to the judgement of an expert. The final decision on declassification is always subject to expert judgement. Obligatory triggers include bankruptcy, financial restructuring and credit obligations that are past due for more than 90 days. Judgement-based triggers include (but are not limited to) negative equity, regular payment problems, improper use of credit lines, legal action by other creditors, etc.

Credit exposure with a rating of 18, 19 or 20 on the Fortis Master scale are not repaid anymore and are impaired.

The procedure for handling problem loans may, considering the specific characteristics of each case, result in an individual restructuring of the credit. The restructuring of any loan may affect different elements of the loan structure such as tenor, collateral mix, pricing, etc. On its own, a loan restructuring process is not a trigger for transferring a loan from impaired to normal status, and any such restructured loan will therefore retain its impaired status after restructuring.

Impairment for specific credit risk is recorded if there is any objective indication that the Bank may not get back the total amounts due based on the contractual terms. The impairment is the difference between the carrying value and the recoverable amount, meaning the present value of expected cash flows and/or the value of the the collateral less the sale costs if the credit is guaranteed.

The table below provides information on impairments and impaired or non-performing credit risk exposure at year end:

	Impaired outstanding	Impairments for specific credit risk
Cash and cash equivalents		
Interest bearing investments		
Loans and receivables to credit institutions		
- Interest bearing deposits	0.1	-0.1
Total loans and receivables to credit institutions	**0.1**	**-0.1**
Loans and receivables to customers		
Government and official institutions (total)	1.2	
- Residential mortgages	35.4	-4.1
- Consumer loans	117.5	-34.8
- Commercial loans	268.6	-80.0
- Other	323.2	-49.2
Total loans and receivables to customers	**745.9**	**-168.1**
Other receivables	1.0	-0.4
Total on-balance sheet	**747.0**	**-168.6**
Total off-balance sheet	43.6	-13.0
Total impaired credit exposure	**790.6**	**-181.6**

The table below provides information on the duration of impairment being the period between the first impairment event of the financial asset and year end:

	< 1 year impaired	> 1 year < 5 years impaired	> 5 years impaired
Cash and cash equivalents			
Interest bearing investments			
Loans and receivables to credit institutions			
- Interest bearing deposits	0.1		
Total loans and receivables to credit institutions	**0.1**		
Loans and receivables to customers			
- Government and official institutions (total)	1.2		
- Residential mortgages	16.2	19.2	
- Consumer loans	21.4	96.1	
- Commercial loans	132.9	135.3	0.4
- Other	197.0	116.8	9.4
Total loans and receivables to customers	**368.7**	**367.4**	**9.8**
Other receivables	0.2	0.8	
Total on-balance sheet	**369.0**	**368.2**	**9.8**
Total off-balance sheet	22.5	21.1	
Total impaired credit exposure	**391.5**	**389.3**	**9.8**

Risk mitigation is the technique of reducing:
- the financial risk by hedging;
- the counterparty risk by obtaining collateral.

Hedging is any financial technique designed to reduce or eliminate the financial risk engendered by products and/or activities. Security (collateral) is any commitment made or privilege given by a third party of a counterparty to which the Bank can seek recourse in the event of the counterparty's default in order to reduce loan losses, or any other agreement or arrangement having a similar effect. The lending activity is never purely based on collateral or hedging. The risk mitigation factors are always considered as a second way out.

The table below provides information on collaterals and guarantees received for impaired outstanding at year end:

	Total collaterals and guarantees received (for impaired outstandings)	Total impaired outstandings net of collaterals and guarantees received
Cash and cash equivalents		
Interest bearing investments		
Loans and receivables to credit institutions		
- Interest bearing deposits		0.1
Total loans and receivables to credit institutions		**0.1**
Loans and receivables to customers		
- Government and official institutions (total)		1.2
- Residential mortgages		35.4
- Consumer loans		117.5
- Commercial loans	0.4	268.2
- Other	9.4	313.8
Total loans and receivables to customers	**9.8**	**736.1**
Other receivables		1.0
Total on-balance sheet	**9.8**	**737.2**
Total off-balance sheet		43.6
Total impaired credit exposure	**9.8**	**780.8**

The table below provides information on outstanding credits which are past due and which are not classified as impaired outstandings (rating between 0 and 17 on the Fortis Master scale) at year end:

	< 30 days past due	> 30 days past due
Cash and cash equivalents		
Interest bearing investments	0.9	
Loans and receivables to credit institutions		
- Interest bearing deposits	21.6	
Total loans and receivables to credit institutions	**21.6**	
Loans and receivables to customers		
- Government and official institutions (total)	5.4	
- Residential mortgages	7.7	6.6
- Consumer loans	45.9	5.1
- Commercial loans	876.7	122.3
- Other	35.5	117.2
Total loans and receivables to customers	**971.2**	**251.2**
Other receivables	19.6	3.8
Total on-balance sheet	**1,013.3**	**255.0**

“Incurred but not reported” (IBNR) impairments are recorded if there is objective indication that losses occurred in components of the performing loan portfolio.

The scope of the calculation of the IBNR impairment covers all financial assets in loans to credit institutions and loans to customers which are not individually impaired. All related off-balance sheet items such as unused credit facilities and credit commitments are also included.

7.6.2 Market risk

Market risk is the risk of losses due to fluctuations in market risk factors which include share prices, interest rates and exchange rates. Market risk impacts both the structural positions (risk on the banking book monitored by the ALM department) and the trading positions (trading risk).

7.6.2.1 ALM risk

The ALM department of the Bank monitors and controls the interest rate risk of the banking book according to rules and guidelines set by the ALCO committee and the Management board. It is a key player in managing the Bank's balance sheet.

ALM risk – interest rate risk on the banking book

Interest rate volatility is a dominant risk factor in the banking industry, followed by the risk on shares and exchange rates. The three main sources of interest rate risk monitored at the Bank are:

- repricing risk, evidencing a timing difference in the fixing of interest rates between assets and liabilities;
- changes in the structure of yield curves (parallel, flattening or sloping shifts);
- optionality: certain financial instruments carry embedded options (hidden or explicit) that may be exercised depending on the evolution of interest rates in the market.

The Bank measures, monitors and controls its ALM Interest Rate Risk using the following indicators:

- "interest rate gap", which illustrates the profile of the interest rate exposures over time;
- "duration of equity", used as a key indicator for the Interest Rate Risk. It reflects the value sensitivity to a small parallel interest rate shift;
- interest rate sensitivity of the fair value by applying stress tests of +/- 100bp to the fair value;
- "Value-at-risk" (VaR), which calculates the maximum potential structural loss on a fair value basis resulting from different possible market fluctuations, based on a timescale of one year and a reliability interval of 99%;
- "Earnings-at-Risk", which is an indicator that simulates the effect of changes in interest rates on future results.

Analysis of net exposure over time (interest rate gaps)

The table below shows the Bank's exposure to Interest Rate Risk. Cash flows of assets and liabilities are classified by the expected repricing or maturity date, whichever is earlier. For assets and liabilities without maturity, the projected cash flows reflect the interest rate-sensitivity of the product. The derivatives of the banking book are principally used to reduce the Bank's exposure to interest rate changes. The notional value is reported separately in the table for the activities of the banking book. A positive (negative) amount means a net receiving (paying) position in interest rates.

As at 31 December 2006							
Interest rate gaps	**<1 month**	**1-3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**5-10 years**	**>10 years**
Assets	21,119	13,030	3,901	2,920	3,683	3,052	154
Liabilities	29,336	11,196	1,631	522	456	1,724	461
Gap Assets - Liabilities	-8,217	1,834	2,270	2,398	3,227	1,328	-307
Derivatives	471	128	-496	-68	-106	71	0
GAP	-7,746	1,962	1,774	2,330	3,121	1,399	-307

The above table illustrates the transformation of maturities in respect of interest rates to which the Bank faces at year end.

Duration of equity

Duration reflects the value-sensitivity to a small (up or down) interest rate shift (noted Δi):

$$\frac{\Delta Value}{Value} = -Duration \cdot \Delta i$$

A positive (negative) duration leads to a decrease (increase) in value when interest rates increase. The higher the absolute value of the duration, the higher the sensitivity of the value to an interest rate movement. The duration of equity measures the sensitivity of the fair value of the Bank's equity in respect to a small interest rate shift.

Duration of equity (in years)	**31 Dec. 2005**	**31 Dec. 2006**
Fortis Banque Luxembourg	4.33	5.13

The Bank's equity duration limit is fixed at 8 years. At the end of December 2006, the equity duration was slightly above 5 years, within its usual average range of 4 to 6 years.

While the duration of equity measures the sensitivity of the value to very small interest rate movements, the Bank also monitors the variability of the value for bigger interest rate shocks. This is shown in the following section.

Interest rate sensitivity of the fair value of equity

The following table shows the impact of a +/- 100 basis points shift in the yield curve on the global fair value of the Bank's activities.

Impact on the fair value as at 31 December 2006

In million of euros	+100 pb	-100 pb
Fortis Banque Luxembourg	-212.3	+215.3

The interest rate risk indicators Value-at-risk and Earnings-at-risk will be discussed in the section "ALM risk – Other risk factors".

ALM risk – Currency risk

Any financial product is denominated in a specific currency and exchange rate risk results from a change in the exchange rate of that currency to the functional currency of the Bank, the euro.

No currency risk is taken in the ALM position of the Bank due to the application of the following principles:

1. loans and bond investments in currencies other than the functional currency of the Bank must be hedged by a funding in the corresponding currency;
2. participations in currencies other than the functional currency of the the Bank must be hedged by a funding in the corresponding currency. The Bank's policy for banking activities is to hedge via one-year funding in the corresponding currency where possible. Net investment hedge accounting is applied.
3. the results of branches and subsidiaries in currencies other than the functional currency of the Bank's activities are hedged on a regular basis (quarterly).

Exceptions to this general rule must be approved by the ALCO committee.

ALM risk – Other risk factors

In addition to interest rate risk and currency risk, ALM risk also encompasses equity securities risk. Equity securities risk is the risk of losses due to unfavorable movements on equity markets.

These risk factors are monitored through risk indicators such as "Value-at-Risk" and "Earnings-at-Risk".

Value-at-Risk

The table below shows in absolute amounts the maximum loss in the event of a worst-case scenario given a Value-at-risk model on a time frame of two months and a confidence interval of 99%.

In million of euros	Value-at-Risk
Equity securities risk	116.3
Interest rate risk	157.6
Foreign exchange risk	8.3

Taking into account diversification impacts between these three risks, the Bank's global Value-at-Risk amounts to EUR 164.3 million at year-end, given a time frame of two months and a confidence interval of 99%.

Earnings-at-Risk

Earnings-at-Risk is the amount of the decrease in net interest margin on an annual basis giving a hypothetical adverse change in interest rates, compared to a net interest margin calculated on the basis of a stable interest rate scenario in 2007 over the level of interest rates at year end 2006. Earnings-at-Risk assesses the impact of stress tests on the projected IFRS net income before tax. The simulated interest rate shifts (+100 bps, -100 bps) are expected to apply immediately.

A scenario for a decrease of equity securities prices by 20% is also analysed. It shows the impact on the income statement following additional estimated impairments in the context of such a scenario.

Earnings-at-Risk (in million of euros)	2007
Interest rates +100 bp	-42
Interest rates – 100 bp	+41
Decrease of equity securities markets by 20%	-0.55

7.6.2.2 Trading risk

The structure of limits ("Value-at-Risk" or "VaR", "modified duration", "vega and evaluation limits") is harmonised within Fortis group in order to allow a coordinated monitoring of the trading risk of Merchant bank. A daily VaR is calculated on a confidence interval of 99% in accordance with the regulators requirements. For the activities "Structured Products Services", "Structured Credit Group" and "Equity Facilitation Book", Risk Management calculates and ensures the daily monitoring of exposures.

The market value corresponds to the value of a position expressed in terms of the mark-to-market principle.

The value-at-risk market (VaR) or exposure market/price is the potential maximal loss over a certain holding period. Historical market factors are used in order to estimate possible evolutions of these factors. The VaR is calculated based on a confidence interval of 99% and a holding period of one day.

Limits based on the Value-at-Risk are completed by other limits in order to avoid excessive positions in case of low volatility.

The Bank also uses stress testing to monitor the potential impact of extreme market evolutions on the trading portfolio. The stress testing programme reports the contribution of the main risk factors to the potential profit variation for historical and hypothetical scenarios and is detailed for the different levels of the Merchant banking structure. When the stress testing results exceed the early warning signals, they are considered to be management action triggers.

The effectiveness of Value-at-Risk calculations is tested using “back-testing”, which compares the Value-at-Risk forecast with the calculated “Mark-to-Market” change using observed daily market data variation.

The back-testing measures, on a one-year rolling window, the number of losses exceeding the VaR prediction. Intuitively, for a 99% confidence level, such losses should happen once per 100 days.

Back-testing analysis revealed that the Bank achieved this target.

7.6.3 Liquidity risk

Management of liquidity risk

Merchant Banking is the lender of last resort for the Bank as it has ultimate access to the central banks or to professional financial markets. This lender carries the final responsibility for funding all businesses and the Bank entities. To support its role as final funding provider, Merchant Banking has created the Global Liquidity and Funding Team. This department is configured as an independent structure maintaining diversified market access, to source and to procure liquidity and funding on behalf of the Bank’s companies, whilst enhancing collateral value, with a view to optimising funding costs.

The basic principles of the liquidity risk management are defined in a Fortis wide liquidity policy. The primary goal of the policy is to ensure that the Bank maintains sufficient cash and liquid assets to meet its current and future financial obligations at all times, in both normal and stressed circumstances, for every currency in which it has an exposure.

In order to face a liquidity crisis, Fortis implemented a “liquidity continuity plan”. This plan comes into effect whenever the liquidity position of the Bank is threatened by market-related or Bank-specific circumstances. Its goal is to manage the liquidity sources of the Bank without endangering its business franchise, while limiting excessive funding costs.

7.7 Additional tables on risk management

The tables below provide supplementary information on interest rate sensitivity gaps, currency risk exposures and liquidity sensitivity gaps, based on data collected within the IFRS accounting framework and facilitating reconciliation with the reported accounting figures.

7.7.1 Interest rate sensitivity gaps

The table shows all assets and liabilities at carrying value, classified by contractual repricing or maturity date, whichever is the earlier. The carrying amounts of derivatives, which are principally used to reduce the Bank's exposure to interest rate changes, are reported in this table as "Non-interest-bearing financial instruments".

The off-balance sheet interest rate sensitivity gap over a given time period is the difference between the notional amounts to be received and the notional amounts to be paid for interest rate derivatives that mature or are repriced during that period.

	Earlier of contractual repricing or maturity date						
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
At 31 December 2006							
Assets							
Fixed rate financial instruments	1,046.7	4,213.0	3,570.4	8,495.1	3,373.8	967.2	21,666.2
Variable rate financial instruments	302.4	251.1	2,112.5	4,947.4	7,435.0	6,889.5	21,937.9
Non-interest bearing financial instruments						6,330.1	6,330.1
Non-financial instruments						2,185.9	2,185.9
Total assets	**1,349.1**	**4,464.1**	**5,682.9**	**13,442.5**	**10,808.8**	**16,372.7**	**52,120.1**
Liabilities							
Fixed rate financial instruments	9,626.0	4,338.7	1,945.2	2,894.0	945.0	615.1	20,364.0
Variable rate financial instruments	168.1	3,894.9	23.0	513.5	120.5	11,081.3	15,801.3
Non-interest bearing financial instruments						10,433.9	10,433.9
Non-financial instruments						1,793.6	1,793.6
Total liabilities	**9,794.1**	**8,233.6**	**1,968.2**	**3,407.5**	**1,065.5**	**23,923.9**	**48,392.8**
Total interest sensitivity gap	**-8,445.0**	**-3,769.5**	**3,714.7**	**10,035.0**	**9,743.3**	**-7,551.2**	**3,727.3**
At 31 December 2005							
Total assets	3,553.9	4,660.2	5,503.2	9,421.9	15,508.8	5,506.9	44,154.9
Total liabilities	7,079.8	7,676.1	2,897.9	3,055.6	11,966.0	7,636.2	40,311.6
On-balance sheet interest sensitivity gap	**-3,525.9**	**-3,015.9**	**2,605.3**	**6,366.3**	**3,542.8**	**-2,129.3**	**3,843.3**

7.7.2 Currency risk exposures

The table below shows all assets and liabilities at carrying value, classified by currency:

	EUR	GBP	USD	YEN	Other	Total
At 31 December 2006						
Assets						
Cash and cash equivalents	348.9	597.5	4,819.5	57.5	583.1	6,406.5
Held for trading financial assets	379.3	26.7	85.2		38.4	529.6
Hedging derivatives	31.9		12.4		0.1	44.4
Loans and receivables to credit institutions	1,401.0	3,355.8	71.8	7.3	27.9	4,863.8
Loans and receivables to customers	15,711.1	2,159.6	831.4	59.4	1,758.7	20,520.2
Available for sale, held to maturity and designated at fair value through profit or loss financial assets	13,332.0	700.3	2,255.4	107.4	356.9	16,752.0
Investments in associates accounted for under the equity method	313.2				0.1	313.3
Investment property	531.9				3.7	535.6
Tangible assets	219.6	0.7			21.7	242.0
Goodwill and other intangible assets	224.5				28.0	252.5
Other assets	728.2	53.6	114.0	1.2	64.9	961.9
Prepayments and accrued income	613.6	11.9	61.5	1.4	9.9	698.3
Total assets	**33,835.2**	**6,906.1**	**8,251.2**	**234.2**	**2,893.4**	**52,120.1**
Liabilities						
Held for trading financial liabilities	287.2	6.5	177.2		26.8	497.7
Hedging derivatives	37.5	1.2	10.6		0.3	49.6
Deposits from credit institutions	6,063.9	2,103.4	1,068.9	16.7	1,489.5	10,742.4
Deposits from customers	18,378.6	4,205.4	1,876.0	100.0	647.0	25,207.0
Debt certificates	3,296.2	468.5	4,710.3	99.9	554.7	9,129.6
Subordinated liabilities	835.9		79.9			915.8
Current and deferred tax liabilities	486.6	-1.8			4.5	489.3
Provisions	27.1	0.1	3.1		3.2	33.5
Other liabilities	818.9	19.7	89.9	0.3	10.1	938.9
Accruals and deferred income	338.9	24.8	5.1	0.4	19.8	389.0
Total liabilities	**30,570.8**	**6,827.8**	**8,021.0**	**217.3**	**2,755.9**	**48,392.8**
Net on-balance sheet positions	**3,264.4**	**78.3**	**230.2**	**16.9**	**137.5**	**3,727.3**
At 31 December 2005						
Total assets	32,025.7	2,723.4	7,199.4	307.5	1,898.9	44,154.9
Total liabilitiies	27,949.7	2,719.8	7,186.0	302.2	2,153.9	40,311.6
Net on-balance sheet positions	**4,076.0**	**3.6**	**13.4**	**5.3**	**-255.0**	**3,843.3**

7.7.3 Liquidity sensitivity gaps

The table below shows the Bank's assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. Demand deposits, savings accounts and other assets and liabilities without stated maturity are reported in the column "no maturity" and are considered by the Bank as a relatively stable core source of funding for its operations.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
At 31 December 2006							
Assets							
Fixed rate financial instruments	1,611.9	4,238.1	3,652.3	8,742.5	3,421.3		21,666.1
Variable rate financial instruments	294.2	259.3	1,100.2	4,947.6	8,447.0	6,889.5	21,937.8
Non-interest bearing financial instruments	630.6	196.9	866.2	1,237.8	103.5	3,239.7	6,274.7
Non-financial instruments	1,034.5	70.3	57.3	208.6	140.3	730.5	2,241.5
Total assets	**3,571.2**	**4,764.6**	**5,676.0**	**15,136.5**	**12,112.1**	**10,859.7**	**52,120.1**
Liabilities							
Fixed rate financial instruments	9,685.8	4,381.6	2,081.5	3,118.4	1,076.5	20.3	20,364.1
Variable rate financial instruments	82.1	3,894.9	43.9	578.5	120.5	11,081.3	15,801.2
Non-interest bearing financial instruments	47.8	3,424.5	347.9	2,206.1	2,014.0	2,378.7	10,419.0
Non-financial instruments	342.9	135.8	35.8	50.7	33.3	1,210.0	1,808.5
Total liabilities	**10,158.6**	**11,836.8**	**2,509.1**	**5,953.7**	**3,244.3**	**14,690.3**	**48,392.8**
Net liquidity gap	**-6,587.4**	**-7,072.2**	**3,166.9**	**9,182.8**	**8,867.8**	**-3,830.6**	**3,727.3**
At 31 December 2005							
Total assets	2,764.4	1,665.6	4,200.6	11,914.2	10,956.6	12,653.5	44,154.9
Total liabilities	7,535.4	5,617.0	2,183.9	5,914.2	3,885.5	15,175.6	40,311.6
Net liquidity gap	**-4,771.0**	**-3,951.4**	**2,016.7**	**6,000.0**	**7,071.1**	**-2,522.1**	**3,843.3**

8 Supervision and Solvency

As a credit institution, the Bank is subject to the prudential supervision of the "Commission de Surveillance du Secteur Financier" (CSSF), both at the Bank's individual and consolidated level.

8.1 Supervision

The prudential supervision includes the quarterly control that the Bank ensures the availability of own funds at least equal to the sum of the solvency requirements. The Bank met all requirements in 2006 and 2005.

8.2 Solvency

The prudential solvency regulations require the credit institutions to maintain a minimum level of qualifying capital relative to the on- and off-balance sheet credit commitments and the bank's trading positions. The positions and credit commitments are weighted according to the level of risk involved. The total solvency ratio must be maintained at a minimum of 8% of risk-weighted commitments.

	Minimum	2006	2005
Credit risk		27,145.6	23,997.0
Market risk		456.5	161.3
Risk weighted commitments		**27,602.1**	**24,158.3**
"Tier 1" solvency ratio		**11.4%**	**12.2%**
Total solvency ratio	**8.0%**	**13.8%**	**15.8%**

9 Post-Employment Benefits and Other Long-Term Employee Benefits

Post-employment benefits are employee benefits, such as pensions and post-employment medical care, which are payable after the completion of employment. Other long-term employee benefits are employee benefits which do not fall due fully within twelve months of the period in which the employees rendered the related service, including jubilee premiums and long-term disability benefits.

9.1 Post-employment benefits

9.1.1 Defined benefit pension plans

The Bank operates several defined benefit pension plans covering the majority of its employees. Many of these plans are closed to new employees. Some plans are funded partly by means of employee contributions.

Under these plans, benefits are calculated based on years of service and level of salary. Pension obligations are determined on the basis of mortality, employee turnover, wage drift and economic assumptions such as inflation and discount rate. Discount rates by country or region are set on the basis of the yield (at closing date) of debt securities of similar duration, issued by blue-chip companies or by the government in the absence of a representative corporate market.

The following table provides details of the amounts shown in the balance sheet regarding pension plans. Assets are indicated by a positive sign and liabilities by a negative sign:

	2006	2005
Present value of funded obligations	-85.0	-98.4
Defined benefit obligation	**-85.0**	**-98.4**
Fair value of plan assets	79.2	82.8
Sub-total	**-5.8**	**-15.6**
Unrecognised actuarial losses (gains)	-2.2	9.6
Unrecognised assets due to asset ceiling	-0.2	-5.0
Net defined benefit assets (liabilities)	**-8.2**	**-11.0**
Amounts in the balance sheet:		
Defined benefit liabilities	-17.3	-11.7
Defined benefit assets	9.1	0.7
Net defined benefit assets (liabilities)	**-8.2**	**-11.0**

Defined benefit liabilities are recorded in “Other liabilities” (see note 35) and defined benefit assets are recognised in “Other assets” (see note 27).

The following table reflects the changes in the net pension asset (liability) as recognised in the balance sheet:

	2006	2005
Net defined benefit asset (liability) at 1 January	**-11.0**	**-8.1**
Total defined benefit expense	0.3	-3.8
Contributions received/benefits paid	3.2	3.7
Acquisitions/Divestments of subsidiaries		-1.1
Transfer between qualifying/non-qualifying plans	-1.6	-0.1
Other	0.9	-1.6
Net defined benefit asset (liability) at 31 December	**-8.2**	**-11.0**

The table below shows the changes in the defined benefit obligation recorded in the balance sheet:

	2006	2005
Defined benefit obligation at 1 January	**-98.4**	**-84.9**
Current service cost	-3.5	-4.3
Participants' contributions	-0.2	-0.3
Interest cost	-3.5	-3.3
Actuarial gains (losses) on defined benefit obigation	9.1	0.9
Benefits paid during the year	3.4	2.2
Past service cost	-0.7	
Acquisitions/Divestments of subsidiaries		-8.6
Liabilities extinguished on settlements	0.3	
Transfers	8.8	-0.1
Foreign exchange differences	-0.3	0.0
Defined benefit obligation at 31 December	**-85.0**	**-98.4**

The following table shows the changes in the fair value of plan assets:

	2006	2005
Fair value of plan assets at 1 January	**82.8**	**66.0**
Expected return on plan assets	3.9	3.5
Acturial gains (losses) on plan assets		4.0
Employer's contributions	3.2	3.7
Participants' contributions	0.2	0.3
Benefits paid during the year	-3.4	-2.2
Acquisitions/Divestments of subsidiaries		7.5
Transfer between qualifying/non-qualifying plans	-7.3	
Assets distributed on settlement	-0.2	
Fair value of plan assets at 31 December	**79.2**	**82.8**

Actuarial gains (losses) are mainly the difference between the actual and the expected return.

The following table shows the actual return on plan assets:

	2006	2005
Actual return on plan assets	3.5%	6.2%

The following table shows the changes in the total of unrecognised actuarial gain (losses) on liabilities and assets:

	2006	2005
Unrecognised actuarial gains (losses) at 1 January	**-9.6**	**-10.7**
Actuarial gains (losses) on defined benefit obligation	9.1	0.9
Actuarial gains (losses) on plan assets		4.0
Recognised gains (losses) resulting from asset ceiling or curtailment		-4.0
Amortisation of unrecognised actuarial gains (losses)		0.2
Other	2.7	
Unrecognised actuarial gains (losses) at 31 December	**2.2**	**-9.6**

Experience adjustments are actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the year and actual experience during the year.

The following table shows experience adjustments to plan assets and plan liabilities:

	2006	2005
Experience adjustments on plan assets	-1.2	-1.4
As % of plan assets at 1 January	-1.5%	-2.1%
Experience adjustment on defined benefit obligation	0.3	4.7
As % of defined benefit obligation at 1 January	0.3%	5.5%

The following table shows the components of expenses related to the defined benefit pension plans:

	2006	2005
Current service cost	-3.5	-4.3
Interest cost	-3.5	-3.3
Expected return on plan assets	3.9	3.5
Amortisation of unrecognised gains (losses) on liabilities		-0.3
Past service cost	-0.7	
Impact of asset ceiling	4.1	0.6
Total defined benefit expense	**0.3**	**-3.8**

The current service cost, past service cost, amortisation of unrecognised gains (losses) from the defined benefit obligation and gains (losses) on curtailments and settlements impacting liabilities are included in Staff expenses (see note 45). All other defined benefit expense items are included in Interest expenses.

Total defined benefit expense contains all interest costs related to the defined benefit pension plans.

As Fortis is a financial institution specialised in the management of employee benefits, some of its employee pension plans are insured by Fortis insurance companies. Consequently, under IFRS, these assets are considered non-qualifying and are excluded from the pension plan assets. From an economical point of view, the net liability is compensated by the non-qualifying assets of the pension plans managed by Fortis.

The following table shows the assumptions used for the euro zone countries:

	2006		2005	
	Low	**High**	**Low**	**High**
Discount rate	4.4%	4.7%	3.6%	4.2%
Expected return on plan assets at 31 December	4.5%	5.3%	4.9%	5.0%
Future salary increases (price inflation included)	2.4%	4.0%	2.4%	4.0%
Future pension increases (price inflation included)	1.8%	1.8%	1.8%	1.8%
Medical cost trend rates	4.3%	4.3%	4.3%	4.3%

The following table shows the assumptions used for other countries:

	2006		2005	
	Low	**High**	**Low**	**High**
Discount rate	5.2%	5.2%	3.0%	4.7%
Expected return on plan assets at 31 December	7.6%	7.6%	3.0%	7.1%
Future salary increases (price inflation included)	3.4%	3.4%	1.5%	4.3%
Future pension increases (price inflation included)	1.9%	1.9%	1.5%	2.8%

Fortis uses the IRS curve as reference for the expected return on bonds and adds a risk premium to that return for equities and real estate.

The plan assets comprise predominantly fixed income securities and investment contracts with insurance companies. Fortis group's internal investment policy stipulates that investment in derivatives and emerging markets for the purpose of funding pension plans is to be avoided (with the exception of the Turkish plans). Fortis group intends to gradually adjust its asset allocation policy in the future to ensure a closer match between the duration of the assets and that of the pension liabilities. The asset mix of the plan assets is as follows:

Type of assets	2006	2005
Equity securities	24%	22%
Debt securities	63%	63%
Insurance contracts	5%	0%
Real estate	4%	7%
Convertible debt securities	4%	6%
Cash	0%	2%

Pension plan assets are invested in international markets for equity and debt securities.

To administer pension plan assets, Fortis applies general guidelines about tactical asset allocation based on criteria such as geographical distribution and rating. Asset Liability Management studies are carried out periodically in order to keep the investment strategy in balance with the structure of the pension benefit obligation. According to these guidelines and the results of the studies, the asset allocation is decided for each scheme at company level.

The employer's contributions expected to be paid during the next year is estimated at EUR 3.2 million.

9.1.2 Defined contribution pension plans

Fortis operates a number of defined contribution plans worldwide. The employer's commitment in a defined contribution plan is limited to the payment of contributions calculated in accordance with the plan regulations. Employer contributions for defined contribution plans amounted to EUR 5.1 million in 2006 (2005: EUR 1.4 million) and are included in Staff expenses (Note 45).

9.2 Other long-term employee benefits

Other long-term employee benefits include jubilee premiums and long-term disability benefits.

The table below shows liabilities related to other long-term employee benefits included in the balance sheet under “Other liabilities” (Note 35):

	2006	2005
Present value of the obligation	-9.3	-1.5
Fair value of plan assets	2.7	
Net recognised obligations	**-6.6**	**-1.5**

The table below provides the range of actuarial assumptions applied in calculating the liabilities for other long-term employee benefits:

	2006		2005	
Actuarial assumptions	**Low**	**High**	**Low**	**High**
Discount rate	3.8%	4.4%	2.9%	4.2%
Expected future salary increases	2.4%	3.4%	1.8%	3.4%

10 Remuneration Plans in Shares and Options

Fortis uses shares or share related instruments as part of the remuneration package for its employees within the group and its directors. These benefits take the form of:

- employee share options;
- shares offered at a discount.

These remuneration plans are recorded at the level of the entity issuing the securities and are therefore not recognised in the Bank's consolidated financial statements. The Bank refunds the issuing entity of the securities for the costs relating to the issue of these securities.

10.1 Employee share options

Fortis decides each year whether or not to offer options to its employees. In recent years Fortis offered options on Fortis shares to senior managers in order to strengthen their commitment to Fortis and to align their interests. The features of the option plans may vary from country to country depending on local tax regulations.

There is a difference between conditional and unconditional options. Unconditional options are granted to employees who work in countries where options are subject to taxation directly upon being granted. Conditional options are granted to employees in countries where the options are taxed upon exercise. Conditional options become vested if the employee is still employed after a period of five years. In general, options may not be exercised until five years after they are granted, regardless of whether they are conditional or unconditional.

As at 31 December 2006, the following option plans, including options granted to directors and key management, were outstanding:

	2006	2005
Outstanding options	1,713,625	1,673,825
Weighted average exercise price (in EUR)	25.69	25.11

The highest exercise price of these options amounts to EUR 34.70. The lowest exercise price of these options amounts to EUR 14.54.

	2006		2005	
	Outstanding options	Weighted average exercise price (in EUR)	Outstanding options	Weighted average exercise price (in EUR)
Outstanding options at the beginning of the year	1,673,825	25.11	1,462,725	25.58
Options granted	250,500	29.46	214,600	22.25
Exercised options	-176,800			
Expired options	-33,900		-3,500	
Outstanding options at the end of the year	**1,713,625**	**25.69**	**1,673,825**	**25.11**
On Fortis shares to issue	1,713,625		1,673,825	
Conditional options	968,000		770,100	
Unconditional options	745,625		903,725	
Exercisable options in the money	210,325	23.74	416,325	22.63
Exercisable options out of the money	656,000	34.70	656,000	34.70

10.2 Shares offered at a discount

Fortis offered its staff the opportunity to buy Fortis shares at a discount in 2002, 2003 and 2004. The terms of the offer varied from country to country, depending on local tax regulations. In all cases, however, shares could not be sold until five years after purchase. No shares were offered to staff since that time.

The following table shows the shares offered to staff at a discount:

	2004	2003	2002
Number of shares subscribed	163,263	136,967	125,726
Subscription price	15.64	12.04	22.03 (919 shares)
			20.14 (124,807 shares)
End of unsaleable period	2 November 2009	3 November 2008	8 June 2007

11 Remuneration of Board of Directors and Key Management

In 2006 the remuneration, including pension cost, of the Bank's key management amounts to EUR 5.9 million (2005: EUR 5.7 million). The remuneration granted in 2006 to the members of the Bank's Board of Directors amounts to EUR 1.8 million (2005: EUR 1.7 million).

The Bank's key management has received as regard to its responsibilities in the Bank and its subsidiaries 24,000 Fortis options in 2006 (14,500 Fortis options in 2005). The exercise price of these Fortis options was EUR 29.48 (EUR 22.28 in 2005).

12 Audit Fees

Fees paid to the Bank's auditors for 2006 and 2005 may be broken down as follows:

- Audit fees: fees billed for the audit of the Bank's consolidated accounts and the statutory annual accounts of the Bank's subsidiaries if they are billed by KPMG Audit S.à r.l. or another firm of KPMG. Audit fees also include fees billed for other audit services, such as quarterly reviews and other regulatory reports;
- Audit-related fees: fees billed for assurance and related services, such as other attestation engagements, agreed-upon procedures engagements and comfort and censert letters in connection with regulatory filings and financing transactions, and which are not reported under "Audit fees";
- Tax consultancy services.

The fees relating to services invoiced to the Bank during the year by KPMG Audit S.à r.l. Luxembourg or member firms of KPMG are shown in the table below:

	2006	2005
Audit fees	1.2	1.2
Audit-related fees	0.1	0.1
Tax fees	0.2	0.1
Total audit fees	**1.5**	**1.4**

13 Related Parties

Related parties to the Bank include affiliated companies, pension funds, members of the Bank's Board of Directors and key management, close family members of any individual referred to above, entities controlled or significantly influenced by any individual referred to above and other related entities.

As part of its business operations the Bank frequently enters into transactions with related parties. Such transactions mainly relate to loans and deposits and are entered into on the basis of the same commercial and market terms that apply to non-related parties. The table below provides an overview of the transactions entered into with these parties.

The remuneration and the number of Fortis options to the members of the Bank's Board of Directors and key management is described in note 11.

As at 31 December 2006, credits granted to members of the Board of Directors amount to EUR 3.0 million (as at 31 December 2005: EUR 3.0 million) and the credits granted to key management amount to EUR 5.9 million (as at 31 December 2005: EUR 4.5 million).

The table below provides an overview of the transactions entered into with the following related parties for the year ended 31 December:
- associates;
- other related parties such as Fortis group companies which are not owned by the Bank.

	2006	2005
Income statement – related parties		
Interest and similar income	925.6	471.7
Interest expense and similar charges	-844.9	-558.1
Dividends and other investment income	3.4	1.0
Fee and commission income	83.8	67.8
Fee and commission expense	-29.3	-25.6
Other realised and unrealised gains (losses)	61.3	-33.9
Other income	5.5	5.3
Other administrative expenses	-13.0	-5.7

	2006	2005
Balance sheet – related parties		
Assets		
Cash and cash equivalents	5,946.4	6,284.3
Held for trading financial assets	164.9	165.7
Loans and receivables to credit institutions	3,424.7	48.6
Loans and receivables to customers	326.8	145.1
Available for sale financial assets	12.8	
Investment property	0.5	
Tangible assets	15.7	
Other assets	93.0	35.5
Prepayments and accrued income	117.7	59.7
Liabilities		
Held for trading financial liabilities	99.2	75.9
Deposits from credit institutions	8,356.8	7,441.4
Deposits from customers	339.2	382.4
Subordinated liabilities	332.8	140.5
Other liabilities	125.5	99.3
Accruals and deferred income	124.7	119.6

With respect to related parties, the Bank granted the following guarantees and irrevocable and conditional commitments:

- EUR 135.9 million with respect to guarantees given to related parties;
- EUR 70.9 million with respect to guarantees received from related parties.

14 Information on Segments

The Bank is an international financial service provider. It offers products and services, and operates in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects and growth.

The primary format to report segment information is based on business segments. In 2006, the Bank was organised into three business segments:

- Retail Banking;
- Merchant Banking;
- Commercial & Private Banking.

The Bank's segment reporting reflects the full economic contribution of the segments within the Bank. The aim is direct allocation to the segments of all balance sheet and income statement items for which the segments have full management responsibility.

Segment information is prepared based on the same accounting principles as those used in preparing and presenting the Bank's consolidated financial statements (see note 2).

Transactions between the different segments are executed under standard commercial terms and conditions.

Retail Banking

Retail Banking provides financial services to retail customers - individuals, independents professions and small enterprises - through multiple distribution channels, services and advice on all forms of daily banking, saving, investment, credit and insurance.

Merchant Banking

Merchant Banking offers financial solutions composed of a comprehensive range of wholesale products to corporate and institutional clients. Merchant Banking also offers expertise in niche markets with a regional or global scope.

Commercial & Private Banking

Private Banking offers worldwide integrated services and solutions for asset and liability management to high net worth private clients and their businesses as well as to corporate clients and their advisers. Medium sized enterprises are served by a uniform product and service offering, with the same range of cross border products, services and specialisms at the network of Business Centres throughout Europe.

Other and eliminations

Balance sheet items, revenues and costs for support functions, operations and Asset and Liability Management (ALM) are reported in this section. The figures reported are those after allocation to the commercial segments.

Allocation rules

Segment reporting applies balance sheet allocation rules, balance sheet squaring mechanisms, a fund transfer pricing system, rebilling of support and operations expenses and overhead allocation.

The balance sheet allocation and squaring methodology aim at reporting information on segments to reflect Fortis's business model.

Under the Fortis business model, segments do not act as their own treasurer in bearing the interest rate risk and the foreign exchange risk by funding their own assets with their own liabilities, or by having direct access to the financial markets. The interest and currency risks are removed by transferring them from the segments to the central bankers. This is reflected in the fund transfer pricing system. A key role in this system is attributed to Asset and Liability Management (ALM). The results of ALM are allocated to the segments based on the economic capital used and the interest margin generated within the segment.

Support and operations departments provide services to the segments. These services include human resources, information technology, payment services, settlement of security transactions and ALM. The costs and revenues of these departments are charged to the segments via a rebilling system on the basis of service level agreements (SLAs) reflecting the economic consumption of the products and services provided. SLAs ensure that the costs and revenues are charged based on actual use and at a fixed rate. Differences between actual costs and rebilled costs based on standard tariffs are passed through to the three segments in a final allocation.

14.1 Consolidated balance sheet by segments

						31 December 2006
	Retail Banking	Merchant Banking	Commercial & Private Banking	Other	Eliminations	Total
Assets						
Cash and cash equivalents	172.4	6,013.4	406.5	136.3	-322.1	6,406.5
Held for trading financial assets		492.4	37.3	1.1	-1.2	529.6
Hedging derivatives		43.4	1.0			44.4
Loans and receivables to credit institutions	50.3	5,974.8	272.5	-2,594.7	1,160.9	4,863.8
Loans and receivables to customers	13,253.8	7,271.5	18,520.6	4,655.3	-23,181.0	20,520.2
Available for sale financial assets		8,441.7	66.4	6,288.8	-22.6	14,774.3
Held to maturity financial assets				1,938.0		1,938.0
Financial assets designated at fair value through profit or loss		14.7	25.0			39.7
Investments in associates accounted for under the equity method	85.8	8.6	44.4	174.5		313.3
Investment property			516.3	26.8	-7.5	535.6
Tangible assets	0.5	88.0	46.1	363.4	-256.0	242.0
Goodwill and other intangible assets	0.6		256.6		-4.7	252.5
Other assets	16.0	201.1	629.7	123.3	-8.2	961.9
Prepayments and accrued income	0.2	603.6	91.9	2.6		698.3
Total assets	**13,579.6**	**29,153.2**	**20,719.9**	**11,309.8**	**-22,642.4**	**52,120.1**
Liabilities						
Held for trading financial liabilities		478.3	19.5	0.1	-0.2	497.7
Hedging derivatives		49.6				49.6
Deposits from credit institutions	-27.9	241.3	10,606.5	616.1	-693.6	10,742.4
Deposits from customers	13,182.9	17,672.4	10,193.9	5,982.5	-21,824.7	25,207.0
Debt certificates	326.8	8,800.2	10.4	329.4	-337.2	9,129.6
Subordinated liabilities		750.1	165.7			915.8
Current and deferred tax liabilities		457.2	56.6	235.0	-259.5	489.3
Provisions	2.7	0.7	8.2	27.5	-5.6	33.5
Other liabilities	8.3	409.8	-520.6	205.7	835.7	938.9
Accruals and deferred income	1.0	265.6	129.2	0.2	-7.0	389.0
Total liabilities	**13,493.8**	**29,125.2**	**20,669.4**	**7,396.5**	**-22,292.1**	**48,392.8**
Shareholders' equity	85.8	28.0	50.5	3,903.5	-350.3	3,717.5
Minority interest				9.8		9.8
Total equity	**85.8**	**28.0**	**50.5**	**3,913.3**	**-350.3**	**3,727.3**
Total liabilities and equity	**13,579.6**	**29,153.2**	**20,719.9**	**11,309.8**	**-22,642.4**	**52,120.1**
Loans and receivables to external customers	4,258.7	2,705.0	13,551.8	4.7		20,520.2
Loans and receivables to internal customers	8,995.1	4,566.5	4,968.8	4,650.6	-23,181.0	
Loans and receivables to customers	**13,253.8**	**7,271.5**	**18,520.6**	**4,655.3**	**-23,181.0**	**20,520.2**
Deposits from external customers	8,865.9	9,937.6	6,403.4	0.1		25,207.0
Deposits from internal customers	4,317.0	7,734.8	3,790.5	5,982.4	-21,824.7	
Deposits from customers	**13,182.9**	**17,672.4**	**10,193.9**	**5,982.5**	**-21,824.7**	**25,207.0**

31 December 2005	Retail Banking	Merchant Banking	Commercial & Private Banking	Other	Eliminations	Total
Assets						
Cash and cash equivalents	135.2	6,438.3	330.0	148.7	-411.9	6,640.3
Held for trading financial assets		516.8	12.8			529.6
Hedging derivatives		36.0	0.2			36.2
Loans and receivables to credit institutions	45.2	1,619.4	445.5	-2,250.6	1,118.6	978.1
Loans and receivables to customers	12,236.8	6,597.6	15,548.8	4,471.5	-22,269.1	16,585.6
Available for sale financial assets		8,342.9	76.3	6,455.1	-63.4	14,810.9
Held to maturity financial assets				1,863.9		1,863.9
Financial assets designated at fair value through profit or loss		11.8	26.2	102.3		140.3
Investments in associates accounted for under the equity method	71.6	7.0	27.9	215.1		321.6
Investment property			307.6	37.1	-8.5	336.2
Tangible assets	0.3	91.0	40.2	388.3	-269.4	250.4
Goodwill and other intangible assets	0.7		209.4		-3.3	206.8
Other assets	9.3	302.2	462.7	111.9	2.2	888.3
Prepayments and accrued income	0.8	506.5	79.1	2.9	-22.6	566.7
Total assets	**12,499.9**	**24,469.5**	**17,390.5**	**11,722.4**	**-21,927.4**	**44,154.9**
Liabilities						
Held for trading financial liabilities		596.9	16.1			613.0
Hedging derivatives		98.0				98.0
Deposits from credit institutions	-26.2	-562.1	9,623.7	658.1	-880.1	8,813.4
Deposits from customers	12,033.5	14,258.8	8,509.4	6,401.6	-21,730.1	19,473.2
Debt certificates	408.7	8,021.4	15.5	416.4	-425.2	8,436.8
Subordinated liabilities		1,808.6	140.5		-1,012.0	937.1
Current and deferred tax liabilities		481.8	50.5	293.9	-274.2	552.0
Provisions	1.0	0.2	6.8	36.5	-1.8	42.7
Other liabilities	11.2	-450.2	-1,129.7	181.7	2,390.9	1,003.9
Accruals and deferred income		249.7	123.7	0.4	-32.3	341.5
Total liabilities	**12,428.2**	**24,503.1**	**17,356.5**	**7,988.6**	**-21,964.8**	**40,311.6**
Shareholders' equity	71.7	-33.6	34.0	3,730.1	37.4	3,839.6
Minority interest				3.7		3.7
Total equity	**71.7**	**-33.6**	**34.0**	**3,733.8**	**37.4**	**3,843.3**
Total liabilities and equity	**12,499.9**	**24,469.5**	**17,390.5**	**11,722.4**	**-21,927.4**	**44,154.9**
Loans and receivables to external customers	3,757.0	2,132.1	10,401.4	295.1		16,585.6
Loans and receivables to internal customers	8,479.8	4,465.5	5,147.4	4,176.4	-22,269.1	
Loans and receivables to customers	**12,236.8**	**6,597.6**	**15,548.8**	**4,471.5**	**-22,269.1**	**16,585.6**
Deposits from external customers	8,209.3	5,896.9	5,203.8	163.2		19,473.2
Deposits from internal customers	3,824.2	8,361.9	3,305.6	6,238.4	-21,730.1	
Deposits from customers	**12,033.5**	**14,258.8**	**8,509.4**	**6,401.6**	**-21,730.1**	**19,473.2**

14.2 Consolidated income statement by segments

						2006
	Retail Banking	Merchant Banking	Commercial & Private Banking	Other	Eliminations	Total
Interest and similar income	660.9	1,765.8	897.4	-8.8	-536.5	2,778.8
Interest expense and similar charges	-413.5	-1,683.6	-637.6	-0.5	536.4	-2,198.8
Dividends, share of profit or loss of associates accounted for under the equity method and other investment income	25.8	2.1	58.2	30.1	33.2	149.4
Fee and commission income	102.0	122.1	193.9	5.1		423.1
Fee and commission expenses	-5.7	-68.8	-31.1	-5.3	0.3	-110.6
Net realised capital gains on investments	0.1	11.1	5.4	0.6	145.3	162.5
Other net realised and unrealised gains (losses)	4.4	38.4	31.2	1.1	2.6	77.7
Other income	114.7	24.3	60.3	4.2	-182.0	21.5
Net operating income before change in impairments	**488.7**	**211.4**	**577.7**	**26.5**	**-0.7**	**1,303.6**
Change in impairments	-14.1	-0.5	-31.0	0.4	2.6	-42.6
Total net operating income	**474.6**	**210.9**	**546.7**	**26.9**	**1.9**	**1,261.0**
Staff expenses	-46.4	-24.3	-120.9	-84.5	-1.3	-277.4
Other administrative expenses	-11.8	-9.7	-68.7	-86.4	-0.6	-177.2
Amortisation of tangible and intangible assets	-0.6	0.0	-27.3	-26.5		-54.4
Allocation expenses	-109.8	-45.9	-38.5	194.2		
Total operating expenses	**-168.6**	**-79.9**	**-255.4**	**-3.2**	**-1.9**	**-509.0**
Profit before tax	**306.0**	**131.0**	**291.3**	**23.7**		**752.0**
Tax expense	-50.9	6.3	-36.6	1.7		-79.5
Net profit for the year	**255.1**	**137.3**	**254.7**	**25.4**		**672.5**
Minority interest				0.3		0.3
Net profit attributable to shareholders	**255.1**	**137.3**	**254.7**	**25.1**		**672.2**
External net operating income	110.8	132.8	474.7	542.7		1,261.0
Internal net operating income	363.8	78.1	72.0	-515.8	1.9	
Total net operating income	**474.6**	**210.9**	**546.7**	**26.9**	**1.9**	**1,261.0**

						2005
	Retail Banking	**Merchant Banking**	**Commercial & Private Banking**	**Other**	**Eliminations**	**Total**
Interest and similar income	609.9	1,243.7	732.9	-2.7	-553.7	2,030.1
Interest expense and similar charges	-367.7	-1,146.0	-502.4	-0.7	553.9	-1,462.9
Dividends, share of profit or loss of associates accounted for under the equity method and other investment income	17.0	1.4	50.9	6.4	51.2	126.9
Fee and commission income	93.5	107.5	163.1	0.1	-0.7	363.5
Fee and commission expenses	-9.2	-60.7	-28.6	-0.8	0.8	-98.5
Net realised capital gains on investments		-2.0	14.4	1.9	7.4	21.7
Other net realised and unrealised gains (losses)	3.3	27.9	17.9	2.6	-0.5	51.2
Other income	36.2	8.5	29.1	7.6	-56.1	25.3
Net operating income before change in impairments	**383.0**	**180.3**	**477.3**	**14.4**	**2.3**	**1,057.3**
Change in impairments	-2.1	-7.5	-32.7		0.5	-41.8
Total net operating income	**380.9**	**172.8**	**444.6**	**14.4**	**2.8**	**1,015.5**
Staff expenses	-44.2	-19.9	-98.4	-95.9	-1.4	-259.8
Other administrative expenses	-10.9	-5.0	-51.9	-89.1	-0.7	-157.6
Amortisation of tangible and intangible assets	-0.6		-20.2	-31.9		-52.7
Allocation expenses	-105.1	-55.5	-47.1	207.7		
Total operating expenses	**-160.8**	**-80.4**	**-217.6**	**-9.2**	**-2.1**	**-470.1**
Profit before tax	**220.1**	**92.4**	**227.0**	**5.2**	**0.7**	**545.4**
Tax expense	-47.6	5.0	-41.1	3.2		-80.5
Net profit for the year	**172.5**	**97.4**	**185.9**	**8.4**	**0.7**	**464.9**
Minority interest				0.1		0.1
Net profit attributable to shareholders	**172.5**	**97.4**	**185.9**	**8.3**	**0.7**	**464.8**
External net operating income	122.4	172.0	366.5	354.6		1,015.5
Internal net operating income	258.5	0.8	78.1	-340.2	2.8	
Total net operating income	**380.9**	**172.8**	**444.6**	**14.4**	**2.8**	**1,015.5**

14.3 Geographic segmentation

The table below shows key figures based on incorporation of the Fortis company that entered into the transaction:

	Net profit attributable to shareholders	Number of employees (full time equivalents)	Total assets
31 December 2006			
Benelux	568.0	2,650.9	44,643.0
Other European countries	104.2	764.4	7,477.1
Total	**672.2**	**3,415.3**	**52,120.1**
31 December 2005			
Benelux	392.1	2,579.7	39,122.7
Other European countries	72.7	556.8	5,032.2
Total	**464.8**	**3,136.5**	**44,154.9**

Notes to the Consolidated Balance Sheet

15 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, available balances with central banks and other financial instruments with a term of less than three months from the date on which they were acquired. At 31 December the composition of cash and cash equivalents was as follows:

	2006	2005
Cash on hand	27.3	25.8
Balances with central banks readily convertible in cash other than mandatory reserve deposits	13.1	18.9
Loans to credit institutions	6,365.3	6,595.1
Other	0.8	0.5
Total	**6,406.5**	**6,640.3**

The average book value of cash and cash equivalents for 2006 amounts to EUR 6,809.5 million (2005: EUR 7,552.9 million). The average yield in 2006 is 3.8%.

16 Held for Trading Financial Assets and Liabilities

Held for trading financial assets

The following table provides a specification of held for trading financial assets and liabilities at 31 December:

	2006	2005
Securities held for trading		
Treasury bills and other eligible bills		0.1
Debt securities:		
- Government bonds		0.9
- Corporate debt securities	18.0	36.2
Equity securities	20.6	13.9
Total trading securities	**38.6**	**51.1**
Derivatives		
Over the counter (OTC)	486.5	473.4
Exchange traded	4.5	5.1
Total trading derivatives	**491.0**	**478.5**
Total held for trading financial assets	**529.6**	**529.6**
Fair value of trading securities supported by observable market data	**38.6**	**51.1**

Held for trading financial liabilities

The table below shows the composition of held for trading financial liabilities at 31 December:

	2006	2005
Short security sales (fair value supported by observable market data)	3.7	0.1
Derivatives	494.0	612.9
Total held for trading financial liabilities	**497.7**	**613.0**

Details of the derivatives are shown in note 37 “Derivatives”. For details on the calculation of the fair values, see note 38 “Fair value of financial assets and financial liabilities”.

17 Hedging Derivatives

Hedging derivatives at 31 December are recognised as follows:

	2006	2005
In assets	44.4	36.2
In liabilities	49.6	98.0

In assets, “Hedging derivatives” corresponds to the positive fair value of all derivatives qualifying as hedging instruments for fair value hedges or cash flow hedges.

In liabilities, “Hedging derivatives” corresponds to the negative fair value of all derivatives qualifying as hedging instruments for fair value hedges or cash flow hedges.

Hedging strategies are described in more detail in note 7, “Risk management” and the types of hedging derivatives are described in note 37.2, “Hedging derivatives”.

18 Loans and Receivables to Credit Institutions

Loans and receivables to credit institutions consist of the following items at 31 December:

	2006	2005
Interest-bearing deposits	15.2	149.0
Loans and advances	583.7	467.5
Reverse repurchase agreements	3,355.7	
Mandatory reserve deposits with central banks	846.1	332.9
Other	63.4	29.0
Sub-total	**4,864.1**	**978.4**
Less impairments:		
- specific credit risk	-0.1	-0.1
- incurred but not reported credit risk (IBNR)	-0.2	-0.2
Loans and receivables to credit institutions	**4,863.8**	**978.1**

The average carrying amount of loans to credit institutions in 2006 was EUR 3,812.8 million (2005: EUR 1,898.5 million). The average yield in 2006 was 4.9%.

In accordance with monetary policy, the various banking entities are required to place amounts on deposit with the central banks in the countries where the Bank operates. The total balance held with central banks (including the amount reported under “Cash and cash equivalents”) at 31 December 2006 amounts to EUR 859.2 million (2005: EUR 351.8 million). The average outstanding balance with central banks (“Cash and cash equivalents” plus “Loans and receivables to credit institutions”) amounts to EUR 601.8 million (2005: EUR 559.1 million).

Impairments on loans to credit institutions

Changes in impairments on loans to credit institutions are as follows:

	2006		2005	
	Specific credit risk	Incurred but not reported credit risk (IBNR)	Specific credit risk	Incurred but not reported credit risk (IBNR)
Balance at 1 January	**0.1**	**0.2**	**0.2**	**0.1**
Increase in impairments				0.1
Release of impairments			-0.1	
Balance at 31 December	**0.1**	**0.2**	**0.1**	**0.2**

Impairment on specific credit risk and for incurred but not reported credit risk (IBNR) are described in more detail in note 7 “Risk management”.

19 Loans and Receivables to Customers

Loans and receivables to customers consist of the following at 31 December:

	2006	2005
Government and official institutions	286.1	319.2
Residential mortgage	2,751.3	2,163.3
Consumer loans	1,233.2	1,191.1
Commercial loans	5,156.2	4,211.7
Reverse repurchase agreements	1,143.6	1,211.9
Finance lease receivables	9,690.4	7,334.0
Other loans	433.3	350.2
Loans at fair value through profit or loss	32.6	
Fair value adjustments from hedge accounting	-1.0	-0.2
Sub-total	**20,725.7**	**16,781.2**
Less impairments:		
- specific credit risk	-168.1	-160.2
- incurred but not reported credit risk (IBNR)	-37.4	-35.4
Net loans and receivables to customers	**20,520.2**	**16,585.6**

The average carrying amount of loans to customers in 2006 was EUR 18,634.4 million (2005: EUR 13,985.3 million). The average yield in 2006 was 4.8%.

The Bank has designated financial assets as “loans at fair value through profit or loss” eliminating an accounting mismatch between the measurement of the interest rate swap and the credits previously recorded at amortised cost.

As a result of the hedge, the economic impact of changes in the hedged item’s net present value (NPV), due to changes in the appropriate benchmark interest rate curve, will be reduced by offsetting changes in the fair value of the hedging derivative.

Finance lease receivables

Finance lease receivables consist of:

	Minimum lease proceeds		Present value of the minimum lease proceeds receivable	
	2006	**2005**	**2006**	**2005**
Gross investment in finance leases:				
Not later than 3 months	1,933.8	1,327.2	1,817.8	1,254.7
From 3 months to 1 year	2,689.6	1,644.4	2,428.9	1,460.2
From 1 year to 5 years	5,276.0	3,907.3	4,591.0	3,375.8
Over 5 years	1,354.8	1,502.1	852.5	1,243.3
Total	**11,254.2**	**8,381.0**	**9,690.4**	**7,334.0**
Unearned finance income	1,563.8	1,047.0		
Net present value of the minimum lease proceeds receivable	9,690.4	7,334.0		

Proceeds from finance lease agreements recorded in the income statement in 2006 amount to EUR 469.3 million (2005: EUR 365.9 million).

Impairments on loans to customers

Changes in impairments on loans to customers are as follows:

	2006		2005	
	Specific credit risk	Incurred but not reported credit risk (IBNR)	Specific credit risk	Incurred but not reported credit risk (IBNR)
Balance at 1 January	**160.2**	**35.4**	**171.8**	**21.2**
Acquisitions/divestments of subsidiaries	0.3		34.5	9.3
Increase in impairments	67.9	9.8	72.5	19.1
Release of impairments	-38.0	-8.2	-56.4	-11.7
Write-offs of uncollectible loans	-25.0		-37.1	
Foreign currency translation effects and other adjustments	2.7	0.4	-25.1	-2.5
Balance at 31 December	**168.1**	**37.4**	**160.2**	**35.4**

The impairments for specific credit risk and incurred but not reported credit risks (IBNR) are described more in detail in note 7 “Risk management”.

At year-end 2006, the fair value of real estate owned by the Bank as collateral for default mortgages was EUR 23.9 million (2005: EUR 16.2 million).

The impairment on financial lease receivables included in the amounts above is EUR 54.2 million at 31 December 2006 (2005: EUR 48.7 million).

20 Available for Sale Financial Assets

The fair value and amortised cost of the Bank's available for sale financial assets including gross unrealised (losses) at 31 December are as follows:

	Historical / amortised cost	Unrealised gains	Unrealised losses	Fair value adjustments from hedge accounting	Impairments	Fair values
31 December 2006						
Treasury bills and other eligible bills						
Government bonds	4,677.9	21.7	-43.6	10.1		4,666.1
Corporate debt securities	7,240.7	26.5	-21.2	-7.5	-0.6	7,237.9
Mortgage-backed securities	1,722.2	4.0	-0.7	-0.2		1,725.3
Other asset-backed securities	439.2	0.8	-0.9			439.1
Private equities and venture capital	16.8	9.2			-2.3	23.7
Other equity securities	460.2	93.9	-1.3	2.1	-16.3	538.6
Other investments	38.2	105.9			-0.5	143.6
Total	**14,595.2**	**262.0**	**-67.7**	**4.5**	**-19.7**	**14,774.3**
31 December 2005						
Treasury bills and other eligible bills	0.4					0.4
Government bonds	4,593.7	79.7	-18.3	24.5		4,679.6
Corporate debt securities	6,978.5	50.9	-23.0	31.0	-0.6	7,036.8
Mortgage-backed securities	1,804.8	5.3	-1.2		-4.6	1,804.3
Other asset-backed securities	488.7	1.2				489.9
Private equities and venture capital	20.4	8.5	-2.5		-1.9	24.5
Other equity securities	488.9	69.2	-1.6	3.1	-19.0	540.6
Other investments	68.0	167.5			-0.7	234.8
Total	**14,443.4**	**382.3**	**-46.6**	**58.6**	**-26.8**	**14,810.9**

Impairments on available for sale financial assets

The following table shows the changes in impairments on available for sale financial assets:

	2006	2005
Balance at 1 January	**26.8**	**27.1**
Increase in impairments	0.7	6.7
Release of impairments	-1.7	-6.2
Foreign currency translation effects and other adjustments	-6.1	-0.8
Balance at 31 December	**19.7**	**26.8**

In the Merchant Banking segment, the Bank has deployed investment strategies on which fair value hedge accounting is applied.

The general objective of these strategies is to take a medium- or long-term investment position on the credit spread between a bond and the swap curve over a certain period. The interest rate swap associated with the bond is designated to hedge the underlying bond against adverse changes in the interest rate. The hedged risk is the interest rate risk, and the only remaining risk is credit risk.

Changes in the fair value of the investments attributable to the hedged interest rate risk are presented under “Fair value adjustments from hedge accounting” in order to adjust the carrying amount of the investments.

Furthermore, the Bank hedges interest rate risk of fixed rate debt securities using primarily interest rate swaps.
The hedged debt securities have the following features:
- denominated in local currency (EUR);
- fixed term to maturity;
- fixed principal amounts;
- fixed interest payment dates;
- no interest rate options or embedded derivatives;
- recorded at amortised cost.

The hedging instruments are plain vanilla interest rate swaps entered into with external counterparties at market rates prevailing at the time of the transaction.

Changes in the fair value of the bonds which are attributable to the hedged interest rate risk are presented in the column “fair value adjustments from hedge accounting” in order to adjust the carrying amount of the bonds. The difference between the fair value and the carrying value of the hedged bonds at designation of the hedging is amortised over the remaining life of the hedged item and is reported in “fair value adjustments from hedge accounting”.

The Bank hedges the foreign currency risk on certain participations denominated in foreign currencies.

From an economic point of view, the foreign currency risk relating to these shares may be hedged by using a subordinated loan, a deposit or a current account (as funding) denominated in the same currency as the shares.

If the subordinated loan, deposit or current account qualifies as a hedging instrument, the foreign exchange difference on the hedging instrument and the foreign exchange component on the fair value change of the hedged instrument are reported directly in equity. Available for sale financial assets includes the fair value adjustment on the hedged equity securities, reported in “fair value adjustments from hedge accounting”.

21 Held to Maturity Financial Assets

The amortised cost and estimated fair value of the Bank's held to maturity financial assets at 31 December are as follows:

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Government bonds	1,834.7	1,837.9	1,723.3	1,753.5
Corporate debt securities	103.3	104.0	140.6	144.0
Total	**1,938.0**	**1,941.9**	**1,863.9**	**1,897.5**

There were no impairments on held to maturity investments at 31 December 2006 and 2005.

The process to determine the fair value is described in note 38 "Fair value of financial assets and financial liabilities".

22 Financial Assets Designated at Fair Value Through Profit or Loss

The financial assets recorded at fair value through profit or loss at 31 December are as follows:

	2006	2005
Debt securities		15.7
Equity securities	39.7	124.6
Total	**39.7**	**140.3**

In the Merchant Banking segment, some investments of the Bank are designated at fair value through profit or loss, reflecting the business of investing in financial assets with a view to benefit from their total return in the form of interest or dividend and changes in fair value.

Some other investments coupled with derivatives are also designated at fair value through profit or loss, reducing a potential accounting mismatch.

23 Investments in Associates Accounted for Under the Equity Method

The main investments in associates accounted for under the equity method at 31 December are as follows:

	2006	2005
Associates		
BIP Investment Partners S.A.	132.6	175.6
Fortis Investment Management S.A.	84.6	70.5
Fortis Luxembourg Vie S.A.	33.3	30.4
Fortis Intertrust Group Holding S.A.	44.4	27.9
Other	18.4	17.2
Total	**313.3**	**321.6**

Of the investments above, only shares of BIP Investment Partners are quoted. The market value of the investment in BIP Investment Partners amounts to EUR 99.1 million at 31 December 2006 (2005: EUR 132.2 million).

	Total assets	Total liabilities	Total income	Total expenses
2006				
BIP Investment Partners S.A.	510.6	8.8	81.2	-10.3
Fortis Investment Management S.A.	1,505.8	1,165.9	846.0	-747.6
Fortis Luxembourg Vie S.A.	5,364.4	5,297.9	372.8	-360.0
Fortis Intertrust Group Holding S.A.	4,099.1	3,920.8	7.1	-20.0
2005				
BIP Investment Partners S.A.	432.3	2.8	47.0	-5.2
Fortis Investment Management S.A.	1,398.3	1,115.9	624.1	-561.6
Fortis Luxembourg Vie S.A.	4,171.1	4,110.2	416.0	-406.2
Fortis Intertrust Group Holding S.A.	3,458.3	3,346.7	6.1	-18.2

24 Investment Property

Investment property mainly comprises residential, commercial real estate and mixed use real estate, located primarily in Luxembourg. The following table shows the changes in investment property for the year ended 31 December:

	2006	2005
Acquisition cost at 1 January	**425.6**	**195.5**
Acquisitions/divestments of subsidiaries		153.6
Acquisitions	219.7	82.1
Divestments	-5.7	-32.5
Transfers to (from) real estate held for own use	-8.7	26.9
Foreign currency translation effects	-0.3	
Acquisition cost at 31 December	**630.6**	**425.6**
Accumulated depreciation at 1 January	**-86.9**	**-74.0**
Acquisitions/divestments of subsidiaries		-6.9
Depreciation expense	-12.3	-12.2
Reversal of depreciations	0.1	8.8
Transfers to (from) real estate held for own use		
Foreign currency translation effects	0.2	
Other	7.0	-2.6
Accumulated depreciation at 31 December	**-91.9**	**-86.9**
Impairments at 1 January	**-2.5**	**-2.8**
Increase in impairments	-0.7	
Reversal of impairments	0.1	0.3
Impairments at 31 December	**-3.1**	**-2.5**
Investment property	**535.6**	**336.2**
Fair value supported by market evidence	171.8	164.0
Fair value subject to an independent valuation	440.8	219.3
Total fair value of investment property	**612.6**	**383.3**

The depreciation of buildings is calculated using the straight line method to write down the cost of such assets to their residual values over their estimated useful lives. The investment property is split into the following components: structure, doors and windows, technical installations and equipment and finishing.

The maximum useful lives of the components is as follows:

Structure	50 years for offices and commercial real estate; 70 years for residential real estate
Doors and windows	20 years for offices and commercial real estate; 40 years for residential real estate
Technical installations and equipment	20 years for offices, commercial and residential real estate
Finishing	10 years for offices, commercial and residential real estate

Land has an unlimited useful life and is therefore not depreciated.

25 Tangible Assets

Tangible assets at 31 December are as follows:

	2006	2005
Land and buildings held for own use	195.7	208.1
Leasehold improvements	9.3	11.3
Equipment and motor-vehicles	28.4	25.5
Buildings under construction	8.6	5.5
Total tangible assets	**242.0**	**250.4**

Changes in tangible assets

Changes in tangible assets for the years 2006 and 2005 are as follows:

					2006
	Land and buildings held for own use	**Leasehold improvements**	**Equipment and motor-vehicles**	**Buildings under construction**	**Total**
Acquisition cost at 1 January	**403.2**	**40.1**	**147.3**	**5.5**	**596.1**
Acquisitions/divestments of subsidiaries	0.7		1.0		1.7
Acquisitions	2.3	0.5	17.4	3.1	23.3
Reversal of cost due to disposals		-0.1	-8.3		-8.4
Foreign currency translation effects	-0.5	-0.5	-0.6		-1.6
Other	-3.3	0.1	0.2		-3.0
Acquisition cost at 31 December	**402.4**	**40.1**	**157.0**	**8.6**	**608.1**
Accumulated depreciation at 1 January	**-193.3**	**-28.7**	**-121.8**		**-343.8**
Acquisitions/divestments of subsidiaries			-0.1		-0.1
Depreciation expense	-12.3	-2.5	-13.8		-28.6
Reversal of depreciation due to disposals		0.1	6.9		7.0
Foreign currency translation effects		0.4	0.6		1.0
Other	0.3	-0.1	-0.4		-0.2
Accumulated depreciation at 31 December	**-205.3**	**-30.8**	**-128.6**		**-364.7**
Impairments at 1 January	**-1.8**				**-1.8**
Reversal of impairments	0.4				0.4
Impairments at 31 December	**-1.4**				**-1.4**
Tangible assets (net)	**195.7**	**9.3**	**28.4**	**8.6**	**242.0**

					2005
	Land and buildings held for own use	**Leasehold improvements**	**Equipment and motor-vehicles**	**Buildings under construction**	**Total**
Acquisition cost at 1 January	**397.6**	**39.1**	**131.8**	**7.5**	**576.0**
Acquisitions/divestments of subsidiaries	13.4		5.8	-7.5	11.7
Acquisitions	2.2	1.1	11.4	5.5	20.2
Reversal of cost due to disposals			-5.1		-5.1
Foreign currency translation effects	-0.1	-0.1			-0.2
Other	-9.9		3.4		-6.5
Acquisition cost at 31 December	**403.2**	**40.1**	**147.3**	**5.5**	**596.1**
Accumulated depreciation at 1 January	**-179.0**	**-26.1**	**-105.9**		**-311.0**
Acquisitions/divestments of subsidiaries	-2.1		-5.5		-7.6
Depreciation expense	-16.4	-2.7	-12.9		-32.0
Reversal of depreciation due to disposals			3.5		3.5
Other	4.2		-1.0		3.2
Accumulated depreciation at 31 December	**-193.3**	**-28.8**	**-121.8**		**-343.9**
Impairments at 1 January	**-2.4**				**-2.4**
Reversal of impairments	0.6				0.6
Impairments at 31 December	**-1.8**				**-1.8**
Tangible assets (net)	**208.1**	**11.3**	**25.5**	**5.5**	**250.4**

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The real estate is split in the following components: structure, doors and windows, technical installations and equipment, heavy and light finishing.

Structure	50 years for offices and commercial real estate; 70 years for residential real estate
Doors and windows	50 years for offices and commercial real estate; 40 years for residential real estate
Technical installations and equipments	20 years for offices, commercial and residential real estate
IT equipment	4 years
Office equipment	10 years
Motor-vehicles	4 years
Finishing	10 years for offices, commercial and residential real estate

Land has an unlimited useful life and is therefore not depreciated.

IT, office equipment and motor-vehicles are depreciated over their respective useful lives, which have been determined individually.

As a general rule, residual values are considered to be zero.

26 Goodwill and Other Intangible Assets

Intangible assets at 31 December are as follows:

	2006	2005
Goodwill	191.1	175.9
Software and other intangible assets	61.4	30.9
Total goodwill and other intangible assets	**252.5**	**206.8**

Changes in goodwill and other intangible assets

Changes in goodwill and other intangible assets for the years 2006 and 2005 are as follows:

			2006
	Goodwill	Software and other intangible assets	Total
Acquisition cost at 1 January	**175.9**	**67.9**	**243.8**
Acquisitions/divestments of subsidiaries	15.2	34.6	49.8
Acquisitions		11.0	11.0
Reversal of cost due to disposals		-5.8	-5.8
Foreign currency translation effects		-0.8	-0.8
Other		4.2	4.2
Acquisition cost at 31 December	**191.1**	**111.1**	**302.2**
Accumulated depreciation at 1 January		**-37.0**	**-37.0**
Acquisitions/divestments of subsidiaries			
Depreciation expense		-13.5	-13.5
Reversal of depreciation due to disposals		5.0	5.0
Foreign currency translation effects		0.1	0.1
Other		-4.3	-4.3
Accumulated depreciation at 31 December		**-49.7**	**-49.7**
Goodwill and other intangible assets (net)	**191.1**	**61.4**	**252.5**

			2005
	Goodwill	Software and other intangible assets	Total
Acquisition cost at 1 January		**35.4**	**35.4**
Acquisitions/divestments of subsidiaries	176.4	31.0	189.0
Acquisitions		5.4	23.8
Other	-0.5	-3.9	-4.4
Acquisition cost at 31 December	**175.9**	**67.9**	**243.8**
Accumulated depreciation at 1 January		**-31.5**	**-31.5**
Acquisitions/divestments of subsidiaries		-0.8	-0.8
Depreciation expense		-8.5	-8.5
Reversal of depreciation due to disposals		0.3	0.3
Other		3.5	3.5
Accumulated depreciation at 31 December		**-37.0**	**-37.0**
Goodwill and other intangible assets (net)	**175.9**	**30.9**	**206.8**

Intangible assets, except goodwill, are amortised in accordance with the expected useful lives of the assets. Under IFRS, goodwill is tested for impairment at least annually by comparing the recoverable amount to the carrying value.

In 2006, as in 2005, no impairments have been recorded on goodwill.

In general, software and other intangible assets have an expected maximum useful life of 10 years.

The goodwill recorded in 2006 following to the acquisition of entities under common control amounts to EUR 10.3 million (2005: EUR 126.2 million).

Acquisitions and divestments of subsidiaries are described in note 4 “Consolidation scope”.

Calculation of goodwill is further explained in note 2.22 “Goodwill and other intangible assets”.

27 Other Assets

Other assets at 31 December are as follows:

	2006	2005
Buildings held for sale	5.7	2.9
Pension assets	9.1	0.7
Commissions receivable	1.0	1.2
Receivables on operating lease agreements	9.4	4.7
Receivables linked to transactions with credit institutions	53.8	151.6
Receivables linked to transactions with customers	39.6	10.7
VAT and other taxes	111.3	69.0
Other	718.7	636.9
Total gross	**948.6**	**877.7**
Impairments	-14.5	-13.1
Net total	**934.1**	**864.6**

For more details on pension plans and related pension assets, see note 9 “Post employment benefits and other long-term employee benefits”.

All purchases and sales of financial liabilities requiring delivery within a timeframe established by market regulations or conventions are recognised on the trade date, meaning the date when the Bank becomes a party to the contractual provisions of the instrument.

The line “Other” includes transitory accounts balancing the amounts between trade date and settlement date. This caption also includes in 2006 an amount of EUR 107.3 million (2005: EUR 108.6 million) relating to shares held in Fortis Bank (Channel Islands) Ltd. for which the Bank has renounced its right of control with effect from 1 October 2004 in favour of Fortis Bank Nederland NV.

28 Prepayments and Accrued Income

Prepayments and accrued income at 31 December are as follows:

	2006	**2005**
Accrued income	609.2	546.5
Prepayments	89.1	20.2
Total prepayments and accrued income	**698.3**	**566.7**

Accrued income consists mainly of accrued investment and interest income.

29 Deposits from Credit Institutions

Deposits from credit institutions at 31 December are as follows:

	2006	2005
Deposits from credit institutions:		
On demand	312.3	2,102.6
Interest bearing deposits	4,536.2	1,712.5
Total deposits	**4,848.5**	**3,815.1**
Financial liabilities designated at fair value through profit or loss	32.6	
Other	5,861.3	4,998.3
Total deposits from credit institutions	**10,742.4**	**8,813.4**

The line “Other” includes the long-term refinancing of the leasing entities.

The average balance of deposits from credit institutions amounted to EUR 9,422.1 million in 2006 (2005: EUR 7,995.0 million). The average yield in 2006 was 3.9%.

The Bank has designated financial liabilities as “financial liabilities held at fair value through profit or loss” eliminating an accounting mismatch between the measurement of the interest rate swap and the debts previously recorded at amortised cost.

As a result of the hedge, the economic impact of changes in the hedged item’s net present value due to changes in the appropriate benchmark interest rate curve will be reduced by the changes in the fair value of the hedging derivative instrument.

Contractual terms of deposits from credit institutions

The contractual terms of the deposits from credit institutions at 31 December are as follows:

	2006	2005
1 year	7,531.5	6,680.7
2 years	836.4	656.1
3 years	558.8	517.0
4 years	991.6	485.5
5 years	317.2	157.3
More than 5 years	506.9	316.8
Total deposits from credit institutions	**10,742.4**	**8,813.4**

30 Deposits from Customers

The deposits from customers at 31 December are as follows:

	2006	2005
Demand deposits	8,308.5	8,490.8
Saving deposits	1,798.0	1,939.5
Time deposits	15,081.1	9,015.8
Other deposits	19.4	27.1
Total deposits from customers	**25,207.0**	**19,473.2**

The average balance of deposits from customers amounted to EUR 22,741.8 million in 2006 (2005: EUR 20,124.1 million). The average yield was 2.9% in 2006.

The average rate of interest paid on deposits during the year 2006 was as follows:

Interest bearing demand deposits	2.0%
Saving deposits	2.3%
Time deposits	3.6%

Contractual terms of deposits from customers

The contractual terms of deposits from customers at 31 December are as follows:

	2006	2005
1 year	25,062.6	19,251.5
2 years	60.9	38.3
3 years	18.2	21.0
4 years	9.4	11.6
5 years	8.7	7.3
More than 5 years	47.2	143.5
Total deposits from customers	**25,207.0**	**19,473.2**

31 Debt Certificates

Debt certificates are composed of debt securities and other fixed interest rate securities. At 31 December, the Bank has issued the following types of debt certificates:

	2006	2005
Bons de caisse	337.3	425.2
Commercial paper	3,142.0	2,766.3
Other	3.2	3.2
Total at amortised cost	**3,482.5**	**3,194.7**
Debt certificates held at fair value through profit or loss	5,647.1	5,242.1
Total debt certificates	**9,129.6**	**8,436.8**

The average balance of debt certificates in 2006 amounted to EUR 8,090.7 million (2005: EUR 6,898.8 million). The average yield in 2006 was 3.8%.

The Bank has designated selected debt certificates with embedded derivatives at fair value through profit or loss, avoiding the separate recognition of the embedded derivative. The Bank applies the “fair value option” as published by the IASB on 16 June 2005 and adopted by the European Union on 15 November 2005. The nominal value of the debt certificates held at fair value through profit or loss at 31 December 2006 was EUR 5,725.1 million (2005: EUR 5,381.3 million).

The contractual terms of debt certificates at 31 December are as follows:

	2006	2005
1 year	4,013.8	3,518.8
2 years	750.2	523.3
3 years	837.2	772.3
4 years	763.4	511.0
5 years	903.2	857.7
More than 5 years	1,861.8	2,253.7
Total debt certificates	**9,129.6**	**8,436.8**

32 Subordinated Liabilities

The subordinated liabilities at 31 December are as follows:

	2006	2005
Subordinated liabilities held at fair value through profit or loss	750.0	796.6
Other subordinated liabilities	165.8	140.5
Total subordinated liabilities	**915.8**	**937.1**

The average balance of subordinated liabilities amounted to EUR 898.6 million in 2006 (2005: EUR 817.2 million). The average yield was 5.1% in 2006.

Subordinated liabilities held at fair value through profit or loss

The Bank has designated selected subordinated liabilities with embedded derivatives at fair value through profit or loss, avoiding the separate recognition of the embedded derivative. The Bank applies the "fair value option" as published by the IASB on 16 June 2005 and adopted by the European Union on 15 November 2005.

Changes in the fair value of the subordinated liabilities which are attributable to the hedged interest rate risk are recognised in "other net realised and unrealised gains (losses)" in order to adjust the carrying amount of the subordinated liabilities. The difference between the fair value and the carrying value of the subordinated liabilities at designation of the hedging is amortised over the remaining life of the hedged item and is reported in "fair value adjustments from hedge accounting".

The nominal value of the subordinated liabilities held at fair value through profit or loss at 31 December 2006 was EUR 752.0 million (2005: EUR 769.5 million).

The contractual terms of subordinated liabilities at 31 December are as follows:

	2006	2005
1 year	50.2	9.4
2 years	170.5	55.0
3 years	77.5	178.2
4 years	108.1	81.2
5 years	79.8	114.0
More than 5 years	429.7	499.3
Total subordinated liabilities	**915.8**	**937.1**

33 Current and Deferred Tax Assets and Liabilities

The tax position at year end is summarised as follows:

	2006			2005		
	Current	Deferred	Total	Current	Deferred	Total
Tax assets	9.8	18.0	27.8	9.1	14.6	23.7
Tax liabilities	219.0	270.3	489.3	227.9	324.1	552.0

Deferred tax assets and liabilities at 31 December are as follows:

	Balance sheet		Income statement	
	2006	2005	2006	2005
Deferred tax assets comprise:				
Held for trading financial assets (securities held for trading/derivatives)	0.2	0.1	0.2	0.1
Held for trading financial liabilities (short security sales/derivatives)	132.2	152.1	-21.0	-30.7
Investment property	0.1	0.6	-0.6	0.4
Tangible assets	1.5	1.3		
Intangible assets (excluding goodwill)	1.0		1.3	-0.2
Loans and receivables to customers	9.4	7.5	1.2	10.0
Impairments on loans	12.4	8.6	3.8	6.5
Debt certificates and subordinated loans		8.1	-8.1	8.1
Provisions for pensions and post-retirement benefits	6.1	4.8	1.3	0.9
Other provisions	0.8	2.5	-1.7	-0.9
Accrued expenses and deferred income	1.2	0.5	-0.7	-0.5
Unused tax losses	9.4	2.7	6.6	0.9
Other	13.6	29.5	-16.4	-13.0
Gross deferred tax assets	187.9	218.3	-34.1	-18.4
Non recognised deferred tax assets	-0.9	-0.9		-0.5
Deferred tax assets (net)	**187.0**	**217.4**	**-34.1**	**-18.9**

	Balance sheet		Income statement	
	2006	2005	2006	2005
Deferred tax liabilities comprise:				
Held for trading financial assets (securities held for trading/derivatives)	139.6	138.0	-1.1	-2.1
Held for trading financial liabilities (short security sales/derivatives)	0.4	-0.1	0.5	-50.2
Financial assets available for sale/held to maturity/at fair value through profit or loss	59.5	100.7	-14.0	-18.8
Investment property	2.0	2.3	-0.5	0.1
Tangible assets	33.4	34.4	-0.9	-2.1
Intangible assets (excluding goodwill)	14.5	8.9	-1.8	-2.0
Loans to customers	12.6	10.3	2.3	7.1
Impairments on loans	3.4	4.5	-1.1	1.7
Debt certificates and subordinated loans	23.7	48.1	-24.4	7.2
Other provisions	53.6	47.3	3.2	47.3
Deferred expense and accrued income	1.7	-1.7	2.8	-4.0
Other	94.9	134.2	-5.9	-25.6
Total deferred tax liabilities	**439.3**	**526.9**	**-40.9**	**-41.4**
Deferred tax expense			**-6.8**	**-22.5**
Net deferred tax	**-252.3**	**-309.5**		

Since deferred tax assets and liabilities may be netted in certain situations, the amounts are recognised in the balance sheet as follows:

	2006	2005
Deferred tax asset	18.0	14.6
Deferred tax liability	270.3	324.1
Net deferred tax	**252.3**	**309.5**

34 Provisions

Changes in provisions were as follows:

	Credit commitments	Other	Total
Balance at 1 January 2005	**5.1**	**32.3**	**37.4**
Acquisitions/divestments of subsidiaries		1.8	1.8
Additional amounts provided	12.2	11.3	23.5
Reversal of unused provisions	-3.4	-6.7	-10.1
Use of provisions during the year	-0.1	-4.9	-5.0
Foreign currency translation effects	0.2	0.6	0.8
Other		-5.7	-5.7
Balance at 31 December 2005	**14.0**	**28.7**	**42.7**
Additional amounts provided	3.5	7.8	11.3
Reversal of unused provisions	-0.4	-8.0	-8.4
Use of provisions during the year	-0.1	-10.4	-10.5
Foreign currency translation effects		-0.5	-0.5
Other		-1.1	-1.1
Balance at 31 December 2006	**17.0**	**16.5**	**33.5**

Provisions for credit commitments are allowances covering credit risk on the Bank's credit commitments recorded off-balance sheet that have been individually or on a portfolio basis identified as impaired. The amount of the impairment is the present value of the cash flows, which the Bank expects to be required to settle its commitment.

Other provisions consist of:
- legal and tax litigation;
- early departure programmes;
- the upgrade quality management programme announced at the end of 2005.

The provision for legal and tax litigation is based on best estimates available at year end supported by the opinion of legal and tax advisors. The timing of the outflow of cash related to this provision is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigations.

The provisions for early departure programmes are based on the arrangements in the collective labour agreements. The provisions are set up when the collective labour agreements are finalised and the cash outflows are in line with the terms of the collective labour agreements.

The provision for the plan to upgrade the quality of management, announced at the end of 2005, has a horizon of one year.

35 Other Liabilities

The other liabilities at 31 December are as follows:

	2006	2005
Pension liabilities	17.3	11.7
Other employee benefit liabilities	46.9	43.5
Accounts payable	480.7	730.4
VAT and other taxes payable	64.1	34.6
Other liabilities	329.9	183.7
Total other liabilities	**938.9**	**1,003.9**

Further details on “pension liabilities” and “other employee benefit liabilities” are described in note 9 “Post-employment benefits and other long-term employee benefits”. “Other employee benefit liabilities” relates to other post-employment benefits, social security charges, termination benefits and accrued vacation days.

All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, meaning the date when the Bank becomes a party to the contractual provisions of the instrument. The line “Other liabilities” contains transitory accounts balancing the amounts between trade date and settlement date.

36 Accruals and Deferred Income

Accruals and deferred income at 31 December are as follows:

	2006	2005
Deferred income	36.0	25.4
Accrued expenses	353.0	316.1
Total accruals and deferred income	**389.0**	**341.5**

Accrued expenses consist mainly of accrued financial charges.

37 Derivatives

Derivatives include swaps, futures, forwards and option contracts, all of which derive their value from underlying interest rates, foreign exchange rates, equity instruments or indices.

A derivative may be traded either on an exchange market or "over the counter" (OTC). Exchange traded derivatives, which include futures and option contracts, are standardised and generally do not involve significant counterparty risk due to the margin requirements of the individual exchange authorities. OTC derivative contracts are individually negotiated between contracting parties. Within the other derivatives, there exist embedded derivatives, which are part of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary, similar to a stand-alone derivative.

The notional amounts of derivative contracts are not recorded in the balance sheet as assets or liabilities and do not represent the potential for gain or loss associated with such transactions. The exposure to the credit risk associated with counterparty non-performance is limited to the net substitution value of the derivatives.

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating interest rate payments. The Bank uses interest rate swaps to change the interest rate characteristics of certain assets and liabilities. For example, in the context of long-term debt, an interest rate swap may be concluded to convert a fixed interest rate instrument into a floating interest rate instrument, in order to reduce the interest rate mismatch. The Bank also uses interest rate swaps to hedge the risk of price fluctuations of the trading securities.

Interest rate futures are exchange traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price.

Interest rate forward agreements are OTC derivative instruments in which two parties agree on an interest rate and period which serve as a reference point in determining a net payment to be made by one party to the other, depending on the prevailing market rate at a future point in time.

Interest rate options are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current exchange and an agreed–upon rate applied to a notional amount. Exposure to losses on all interest rate contracts depends on the fluctuations of interest rates.

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final payments in different currencies. The value of swap contracts depends upon their maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts represent agreements to exchange payments in different foreign currencies at an agreed exchange rate, on an agreed settlement date. These contracts are used to hedge net capital and foreign exchange exposure.

Foreign exchange option contracts are similar to interest rate option contracts, but are based on currency exchange rates rather than interest rates. The value of these contracts depends on the fluctuations of currency exchange and interest rates.

In exchange traded future contracts, exposure to off–balance sheet credit risk is limited, as these transactions are executed on organised exchange markets that assume the obligations of counterparties and generally require security deposits and daily settlement of margins.

Credit derivatives allow credit risk to be isolated from all other risks as well as from the instrument with which it is associated, so that the credit risk can be passed from one party to another. In a “credit default swap”, the buyer/beneficiary pays a premium and acquires the right to sell back a reference bond to the seller/guarantor if a credit event occurs.

A “total return swap” is a contract in which the beneficiary agrees to pay the guarantor the total return on the reference asset, which consists of all contractual payments as well as any appreciation in the market value of the reference asset. In the context of this contract, the guarantor accepts to pay a floating rate plus a spread and any depreciation to the beneficiary.

Equity derivatives include equity swaps, options, futures and forward contracts. An equity swap is a swap in which the cash flows that are exchanged are based on the total return on a stock market index and an interest rate (either a fixed rate or a floating rate). Equity (or stock) options give the right to buy (in the case of a call option) or to sell (in the case of a put option) a fixed number of shares of a company, at a given price, before or on a specified date.

37.1 Derivatives held for trading

Derivatives held for trading at 31 December are as follows:

	Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount
2006				
Foreign exchange contracts				
Forwards and futures	44.6	10,757.0	41.0	10,790.9
Interest and currency swaps	18.6	292.6	11.1	278.1
Options	4.2	327.8	4.2	275.7
Total	**67.4**	**11,377.4**	**56.3**	**11,344.7**
Interest rate contracts				
Forwards and futures		78.9		
Swaps	308.5	17,555.7	330.5	17,623.9
Options	4.4	242.1	4.4	5,007.4
Total	**312.9**	**17,876.7**	**334.9**	**22,631.3**
Equity and index contracts				
Options and warrants	104.2	582.5	65.0	1,216.2
Total	**104.2**	**582.5**	**65.0**	**1,216.2**
Credit derivatives				
Swaps	6.5	1,065.0		928.0
Total	**6.5**	**1,065.0**		**928.0**
Other			**37.8**	
Balance at 31 December 2006	**491.0**	**30,901.6**	**494.0**	**36,120.2**
Fair value supported by observable market data	16.9		15.3	
Fair value obtained using a valuation model	474.1		478.7	
Total	**491.0**		**494.0**	
Over-the-counter (OTC)	486.5	30,855.5	490.0	36,101.4
Exchange traded	4.5	46.1	4.0	18.8
Total	**491.0**	**30,901.6**	**494.0**	**36,120.2**

	Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount
2005				
Foreign exchange contracts				
Forwards and futures	39.4	8,644.5	36.5	8,656.5
Interest and currency swaps	43.3	521.8	27.5	530.9
Options	9.1	579.9	9.2	570.4
Total	**91.8**	**9,746.2**	**73.2**	**9,757.8**
Interest rate contracts				
Forwards and futures		79.0		
Swaps	255.5	13,310.2	344.8	13,372.6
Options	2.7	245.4	6.7	266.9
Total	**258.2**	**13,634.6**	**351.5**	**13,639.5**
Equity and index contracts				
Options and warrants	123.1	505.3	96.1	1,200.7
Total	**123.1**	**505.3**	**96.1**	**1,200.7**
Other	**5.4**		**92.1**	
Balance at 31 December 2005	**478.5**	**23,886.1**	**612.9**	**24,598.0**
Fair value supported by observable market data	11.7		16.1	
Fair value obtained using a valuation model	466.8		596.8	
Total	**478.5**		**612.9**	
Over-the-counter (OTC)	473.4	23,828.3	607.7	24,540.2
Exchange traded	5.1	57.8	5.2	57.8
Total	**478.5**	**23,886.1**	**612.9**	**24,598.0**

37.2 Hedging derivatives

Hedging derivatives at 31 December are as follows:

	Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount
2006				
Foreign exchange contracts				
Forwards and futures	9.9	65.3	11.2	66.6
Interest and currency swaps		151.9		151.8
Total	**9.9**	**217.2**	**11.2**	**218.4**
Interest rate contracts				
Forwards and futures		7.8		8.1
Swaps	34.5	2,020.7	38.4	2,020.7
Options		2.3		2.3
Total	**34.5**	**2,030.8**	**38.4**	**2,031.1**
Balance at 31 December 2006	**44.4**	**2,248.0**	**49.6**	**2,249.5**
Fair value obtained using a valuation model	44.4		49.6	
Total	**44.4**		**49.6**	
Over-the-counter (OTC)	44.4	2,248.0	49.6	2,249.5
Total	**44.4**	**2,248.0**	**49.6**	**2,249.5**

	Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount
2005				
Foreign exchange contracts				
Forwards and futures	13.1	122.6	14.2	123.7
Total	**13.1**	**122.6**	**14.2**	**123.7**
Interest rate contracts				
Forwards and futures		0.5		
Swaps	23.1	2,329.0	83.8	2,332.3
Options		2.4		
Total	**23.1**	**2,331.9**	**83.8**	**2,332.3**
Balance at 31 December 2005	**36.2**	**2,454.5**	**98.0**	**2,456.0**
Fair value obtained using a valuation model	36.2		98.0	
Total	**36.2**		**98.0**	
Over-the-counter (OTC)	36.2	2,454.5	98.0	2,456.0
Total	**36.2**	**2,454.5**	**98.0**	**2,456.0**

38 Fair Value of Financial Assets and Liabilities

The following table presents the carrying amount and fair values of financial assets and liabilities which are not reported at their fair value in the Bank's consolidated balance sheet. It is completed by a description of the methods used to determine the fair value of financial instruments.

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	6,406.5	6,406.5	6,640.3	6,640.2
Loans and receivables to credit institutions	4,863.8	4,866.9	978.1	978.8
Loans and receivables to customers	20,520.2	20,545.0	16,585.6	16,623.0
Held to maturity financial assets	1,938.0	1,941.9	1,863.9	1,897.5
Total financial assets	**33,728.5**	**33,760.3**	**26,067.9**	**26,139.5**
Financial liabilities				
Deposits from credit institutions	10,742.4	11,956.8	8,813.4	8,994.5
Deposits from customers	25,207.0	23,993.8	19,473.2	19,155.8
Debt certificates	9,129.6	9,128.8	8,436.8	8,436.8
Subordinated liabilities	915.8	915.8	937.1	937.1
Total financial liabilities	**45,994.8**	**45,995.2**	**37,660.5**	**37,524.2**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The Bank uses the following methods, in the order listed, in determining the fair value of financial instruments:
- quoted price on an active market;
- valuation techniques;
- cost.

When a financial instrument is traded in an active and liquid market, its quoted market price or value provides the best evidence of fair value. No adjustment is made to the fair value of large portfolios of shares, unless there is a binding agreement to sell the shares at a price other than the market price. The appropriate quoted market price for an asset held or a liability to be issued is the current bid price, and for an asset to be acquired or a liability held, the ask price. Mid-market prices are used as a basis for establishing fair values of assets and liabilities with offsetting market risks.

If no active market price is available, fair values are estimated using present value or other valuation techniques based on market conditions existing at the reporting date. The Bank uses common valuation techniques practiced by market participants to fix the price of an instrument once these techniques have demonstrated to provide reliable estimates.

Valuation techniques that are well established in financial markets include recent market transactions, discounted cash flows and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price, and should be consistent with accepted economic methodologies for pricing financial instruments.

The basic principles in estimating fair value are:
- maximise market inputs and minimise internal estimates and assumptions;
- change estimation techniques only if an improvement can be demonstrated or if a change is necessary because of changes in the availability of information.

The fair value presented does not include interest accruals. Interest accruals are reported seperately.

Methods and assumptions used in determining fair value are largely dependent on whether the instrument is traded on financial markets and what information is available to be incorporated into the valuation models. A summary of different financial instrument types along with the fair value treatment is included below.

Quoted market prices are used for financial instruments traded on a financial market with quotation of prices.

Non exchange-traded financial instruments are often traded in over-the-counter (OTC) markets by dealers or other intermediaries from whom market prices are obtainable.
Quotations are available from various sources for many financial instruments traded regularly in the OTC market. Those sources include the financial press, various quotation publications and financial reporting services, and individual market makers.

Quoted market prices provide the most reliable fair value for derivative traded on a recognised exchange market. Fair value for derivative instruments not traded on a recognised exchange market is considered to be the value that could be realised through termination or assignment of the derivative instruments.

Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment-grade.

Factors that influence the valuation of an individual derivative include the counterparty's credit standing and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price is considered.

The fair value calculation of financial instruments not actively negotiated on financial markets can be summarised as follows:

Instrument type	Products	Fair value calculation
Instruments without maturity	Current accounts, saving accounts, etc.	Nominal value
Instruments without optional features	Straight loans, deposits, etc.	Discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on commercial margin computed based on the average new production during the last 3 months.
Instruments with optional features	Mortgage loans and other instruments with option features	The product is split in a linear (non optional) component which is valued using a discounted cash flow methodology and an option component valued based on an option pricing model.
Subordinated loans	Subordinated loans	Discounted cash flow methodology in which the spread is based on the price paid by the Bank to the market for the issue of a subordinated loan.
Private equity	Private equity and non-quoted participations	In general based on the “European Venture Capital Association” guidelines, using amongst others ratios such as Enterprise Value/EBITDA, Price/Earnings and Price/Cash flow.
Preference shares (non-quoted)	Preference shares	If the share is considered as a debt instrument, a discounted cash flow model is used.

The Bank has a policy in place aimed at quantifying and monitoring pricing uncertainties related to the calculation of fair values using valuation techniques and internal models. Related uncertainties are a feature of the “model risk” concept.

Model risk arises when the product pricing requires valuation techniques which are not yet standardised or for which input data cannot be directly observed in the market, leading to assumptions on the input data themselves.

The development of new, sophisticated products in the market has resulted in the development of mathematical models to price them. These models in turn depend on assumptions regarding the stochastic behaviour of underlying variables, numerical algorithms and other possible approximations needed to replicate the complexity of the financial instruments.

Furthermore, the underlying assumptions of a model depend on the general market conditions (specific interest rates, volatilities, etc.) prevailing at the time it is developed. There is no guarantee that the model will continue to yield adequate results should market conditions change drastically.

Any related model uncertainty is quantified as accurately as possible and is the basis in adjusting the fair value calculated by the valuation techniques and internal models.

Notes to the Consolidated Income Statement

39 Interest

39.1 Interest and similar income

The breakdown of interest received and similar income is as follows:

	2006	2005
Interest on cash and cash equivalents	260.3	180.4
Interest on loans and receivables to credit institutions	187.8	56.3
Interest on investments	662.3	574.0
Interest on loans and receivables to customers	897.5	668.3
Interest on derivatives held for trading	691.5	531.1
Other interest	79.4	20.0
Total interest and similar income	**2,778.8**	**2,030.1**

39.2 Interest expense and similar charges

The breakdown of interest expense and similar charges is as follows:

	2006	2005
Interest on deposits from credit institutions	370.4	489.3
Interest on deposits from customers	651.1	167.7
Interest on debt certificates	308.6	260.6
Interest on subordinated loans	46.1	38.9
Interest on held for trading financial liabilities and derivatives	822.3	503.9
Interest on other liabilities	0.3	2.5
Total interest expense and similar charges	**2,198.8**	**1,462.9**

40 Dividends and Other Investment Income

The breakdown of dividends and other investment income is as follows:

	2006	2005
Dividend income from equity securities	26.2	26.1
Rental income from investment property	37.0	35.1
Other investment income	0.5	0.1
Total dividends and other investment income	**63.7**	**61.3**

41 Fees and Commissions

41.1 Fee and commission income

The breakdown of fees and commission income is as follows:

	2006	2005
Securities	228.7	193.6
Insurance, including reinsurance commissions	3.9	2.8
Asset management	108.1	89.2
Payment services	14.0	15.5
Guarantees and commitments	14.9	13.3
Other	53.5	49.1
Total fees and commission income	**423.1**	**363.5**

41.2 Fee and commission expense

The breakdown of fees and commission expense is as follows:

	2006	2005
Securities	46.3	44.1
Intermediaries	15.7	14.0
Payment services	8.1	5.7
Custodian fees	7.9	6.6
Other	32.6	28.1
Total fees and commission expense	**110.6**	**98.5**

42 Net Realised Capital Gains on Investments

The breakdown of net realised capital gains on investments is as follows:

	2006	2005
Debt securities	-19.1	4.3
Equity securities	144.3	2.3
Real estate	5.5	2.9
Subsidiaries, investments in associates accounted for under the equity method	31.8	12.2
Total net realised capital gains on investments	**162.5**	**21.7**

The net realised capital gains on equity securities are explained by sales of significant participations during the year 2006.

43 Other Net Realised and Unrealised Gains (Losses)

The breakdown of other net realised and unrealised gains (losses) recorded in the income statement is as follows:

	2006	2005
Held for trading financial assets and liabilities and derivatives	81.2	-25.2
Financial assets and liabilities designated at fair value through profit or loss	-8.7	72.5
Hedging gains (losses)	-2.2	-1.4
Other	7.4	5.3
Total other net realised and unrealised gains (losses)	**77.7**	**51.2**

All changes in fair value recorded here are changes in clean fair value excluding interest accruals recorded under “interest income” and “interest expense”.

Assets and liabilities held for trading are acquired principally for the purpose of generating a profit from short-term fluctuations in the price or the dealer’s margin. Initial recognition is at acquisition cost, including any transaction costs to acquire the financial instrument. Subsequent measurement is at fair value as determined by reference to market prices and includes changes in fair value, realised and unrealised, which are recorded in profit or loss.

Derivatives held for trading are all derivatives not qualifying for hedge accounting. All changes in the fair value of derivatives held for trading are reported here.

All changes in fair value of the assets and liabilities held at fair value through profit or loss are reported above. This includes unrealised gains and losses from revaluations and realised gains and losses upon derecognition of the assets or liabilities.

Hedging results contain the changes in fair value attributable to the hedged risk – mainly interest rate risk – of hedged assets and liabilities and the changes in fair value of the hedging derivatives.

44 Change in Impairments

The breakdown of change in impairments is as follows:

	2006	2005
Loans and receivables to customers	31.5	23.5
Credit commitments	3.1	8.8
Available for sale financial assets	0.7	6.7
Investment property	0.6	-0.3
Tangible assets	-0.4	-0.6
Other assets	7.1	3.7
Total change in impairments	**42.6**	**41.8**

45 Staff Expenses

The breakdown of staff expenses is as follows:

	2006	2005
Salaries and wages	229.1	204.5
Social security charges	27.4	25.1
Pension costs	5.1	3.8
Pension costs relating to defined benefit plans	5.1	1.4
Other	10.7	25.0
Total staff expenses	**277.4**	**259.8**

The pension costs relate to the defined benefit plans. The line “Other” includes termination benefit costs, early-retirement costs and the upgrade quality management plan.

46 Other Administrative Expenses

The breakdown of other administrative expenses is as follows:

	2006	2005
Operating lease rental expenses and related expenses	7.5	6.3
Rental and other direct expenses relating to investment property	2.4	2.3
Professional fees	29.5	25.1
Marketing and public relations	10.8	12.3
Information technology costs	49.0	27.8
Maintenance and repairment costs	13.7	11.2
Other	64.3	72.6
Total other administrative expenses	**177.2**	**157.6**

The line “Other” includes travel expenses, post and telephone costs, temporary staff and training costs for employees.

47 Amortisation of Tangible and Intangible Assets

The breakdown of amortisation of tangible and intangible assets is as follows:

	2006	2005
Amortisation of tangible assets		
Buildings held for own use	12.3	16.4
Leasehold improvements	2.5	2.7
Investment property	12.3	12.2
Equipment and motor-vehicles	13.8	12.9
Amortisation of intangible assets		
Software	2.7	2.7
Other intangible assets	10.8	5.8
Total amortisation of tangible and intangible assets	**54.4**	**52.7**

48 Tax Expense

Details of tax expenses are presented below:

	2006	2005
Current tax expense for the current year	86.2	103.2
Adjustments for current tax of prior years	0.1	-0.2
Total current tax expenses	**86.3**	**103.0**
Deferred taxes arising from the current year	-8.2	-22.4
Impact of changes in tax rates on deferred taxes	0.1	-1.1
Deferred taxes arising from the write-down or reversal of a write-down of a deferred tax asset		0.9
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	1.3	0.1
Total deferred tax expenses	**-6.8**	**-22.5**
Total income tax expenses	**79.5**	**80.5**

The following table provides a reconciliation of the expected income tax expense and the actual tax expense. The expected income tax expense has been determined by relating the profit before tax to the weighted average standard rate in Luxembourg. For 2006, this rate is 29.63% (2005: 30.38%).

	2006	2005
Profit before tax	**752.0**	**545.4**
Applicable tax rate	29.63%	30.38%
Expected income tax expense	222.8	165.7
Increase (decrease) in taxes resulting from:		
Tax exempt interests and dividends	-39.2	-35.0
Tax exempt capital gains on investments	-43.2	-5.0
Share in profit or loss of associates accounted for under the equity method	-25.4	-19.9
Tax exempt profits of holding 1929 subsidiaries	-1.3	-1.2
Previously unrecognised tax losses	-9.7	
Foreign tax rate differential	-13.2	-4.1
Impact of changes in tax rates on temporary differences		-7.0
Other	-11.3	-13.0
Actual income tax expense	**79.5**	**80.5**

Notes to the Consolidated Off-Balance Sheet

49 Credit-Related Financial Instruments

Credit-related financial instruments include acceptances, credit commitments, letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of non-performance by the counterparty is represented by the contractual notional amounts of those instruments. Fees received from these credit-related instruments are recorded in the income statement when the service is delivered.

Acceptances are used by customers to execute payments for merchandise sold in import export transactions.

Credit commitments are agreements to extend a loan to a customer as long as there are no violations of any conditions laid down in the agreement. Commitments generally have fixed expiration dates or other termination clauses. The geographic and counterparty distribution of loan commitments approximates the distribution of outstanding loans. The Bank's experience has been that the majority of loan commitments are actually drawn up by customers.

Letters of credits either ensure payment by the Bank to a third party for a customer's foreign or domestic trade or are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. In such event, letters of credit represent a conditional commitment for the Bank. The Bank evaluates each customer's creditworthiness on a case by case basis. The amount of (eventual) collateral obtained is based on credit evaluation of the counterparty. Collateral could consist of the goods financed as well as of cash deposits. Most documentary credits are granted, though in many cases this is followed by immediate payment.

Sureties and financial guarantees are used to guarantee performance of a customer. The credit risk involved in issuing these guarantees is essentially the same as that involved in extending loan facilities to customers. These sureties and guarantees may be unsecured.

The following table is a summary of the notional amounts (principal sums) of the Bank's commitments and guarantees with off-balance credit risk at 31 December.

	2006	2005
Guarantees and "standby" letters of credit	6,027.6	1,129.4
Commercial letters of credit	72.6	
Documentary credits	40.8	41.3
Commitments to extend credit	6,741.1	6,145.3
Total	**12,882.1**	**7,316.0**

Of these commitments, EUR 4,811.1 million have a maturity of more than one year (2005: EUR 4,706.5 million).

50 Contingent Liabilities

Like any other financial institution, the Bank is involved as defendant in various claims, disputes and legal proceedings, arising in the ordinary course of the banking and insurance business.

The Bank makes provisions for such matters when, in the opinion of management and upon consultation with its legal advisors, it is probable that a payment will have to be made by the Bank, and when the amount can be reasonably estimated (see note 34 “Provisions”).

In respect of further claims and legal proceedings against the Bank of which management is aware (and which, according to the principles outlined above, have not been provided for), it is the opinion of management, after due consideration of appropriate professional advice, that such claims are without merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the Bank’s consolidated financial statements.

51 Lease Agreements

The following table reflects future commitments for non-cancellable operating leases at 31 December:

	2006	2005
Not later than 3 months	1.0	1.0
From 3 months to 1 year	2.9	2.9
From 1 year to 5 years	13.9	13.6
Total	**17.8**	**17.5**
Annual rental expense		
Lease payments	3.8	1.5
Total	**3.8**	**1.5**

52 Assets Under Management

Funds under management include the investment funds managed by the Bank and all assets of customers which are not recorded on the Bank's balance sheet and on which the Bank earns management or advisory fees. Assets which are kept in custody are excluded.

The line "Eliminations" in the tables relates to the assets under management of customers invested in funds managed by the Bank that otherwise would be double counted.

The following table provides a breakdown of assets under management by investment type and origin:

	2006	2005
Investments for own account:		
- Debt securities	16,006.3	15,890.4
- Equity securities	745.8	838.0
- Real estate	535.6	336.2
- Other	420.6	516.9
	17,708.3	**17,581.5**
Funds under management:		
- Debt securities	13,077.8	11,543.0
- Equity securities	11,760.4	9,514.5
- Eliminations	-2,465.8	-2,125.1
	22,372.4	**18,932.4**
Total assets under management	**40,080.7**	**36,513.9**

53 Post-Balance Sheet Events

No significant event occurred after the balance sheet closing date.

Unconsolidated Financial Statements for the Year Ended 31 December 2006

The unconsolidated annual accounts of Fortis Banque Luxembourg SA have been prepared in accordance with the legislation and regulations applicable in Luxembourg, and in particular with the modified Law of 17 June 1992 on the accounts of credit institutions.

The annual accounts are provided hereafter in an abridged form. The unconsolidated annual accounts, comprising the balance sheet, income statement and notes to the annual accounts and the Board of Directors' report, as well as the auditor's report are published in accordance with legal requirements.

Pursuant to article 71 of the modified Law of 17 June 1992 on the accounts of credit institutions, the certified annual accounts, the Board of Directors' report, as well as the auditor's report must be filed with the register of commerce and companies in the month they are approved by the General Meeting of Shareholders, and no later than 7 months after the closing of the period. The accounts are published by mention in the "Mémorial" of the filing with the register of commerce and companies where these documents are available.

The auditor delivered an unqualified certification of the unconsolidated annual accounts of Fortis Banque Luxembourg SA as at 31 December 2006.

Unconsolidated Balance Sheet at 31 December 2006

(In million of euros)

	31 December 2006	31 December 2005
Assets		
Cash, balances with central banks and post offices	872.8	369.4
Loans and advances to credit institutions	11,238.7	7,774.8
a) repayable on demand	*6,035.4*	*6,375.2*
b) other loans and advances	*5,203.3*	*1,399.6*
Loans and advances to customers	10,728.1	8,232.3
Debt securities and other fixed-income securities	16,899.3	16,596.0
a) issued by public bodies	*7,810.9*	*7,846.1*
b) issued by other borrowers	*9,088.4*	*8,749.9*
Shares and other variable yield securities	4,165.3	447.5
Participating interests	130.5	72.7
Shares in affiliated undertakings	1,766.1	1,866.0
Intangible assets	1.7	-
Tangible assets	174.7	185.3
Other assets	128.4	122.2
Prepayments and accrued income	790.4	769.9
Total assets	**46,896.0**	**36,436.1**

(In million of euros)

	31 December 2006	31 December 2005
Liabilities		
Amounts owed to credit institutions	4,836.9	3,054.4
a) repayable on demand	*1,632.7*	*1,113.4*
b) with agreed maturity dates or periods of notice	*3,204.2*	*1,941.0*
Amounts owed to customers	27,446.3	19,097.7
a) saving deposits	*2,178.0*	*2,283.0*
b) other debts	*25,268.3*	*16,814.7*
- repayable on demand	8,962.1	8,478.7
- with agreed maturity dates or periods of notice	16,306.2	8,336.0
Debts evidenced by certificates	9,243.0	8,657.1
a) debt securities in issue	*6,101.0*	*5,890.9*
b) other	*3,142.0*	*2,766.2*
Other liabilities	371.4	593.0
Accruals and deferred income	404.8	374.2
Provisions	461.9	459.9
a) provisions for tax	*197.4*	*192.6*
b) other provisions	*264.5*	*267.3*
Subordinated liabilities	752.0	769.5
Special items with a reserve quota portion	154.2	133.4
Fund for general banking risks	592.8	592.8
Subscribed capital	350.0	350.0
Share premium account	633.5	633.5
Reserves	1,419.3	1,252.4
Profit brought forward	0.1	0.2
Profit for the financial year:		
Profit for the financial year	580.0	468.0
Interim dividend	-350.2	-
Total liabilities	**46,896.0**	**36,436.1**

Off-balance sheet items	**31 December 2006**	**31 December 2005**
Contingent liabilities	6,978.0	2,168.2
of which:		
- guarantees and assets pledged as collateral security	*2,540.9*	*1,587.5*
Commitments	7,541.7	6,706.6
Fiduciary operations	2,407.4	2,022.3

Unconsolidated Profit and Loss Account for the Year Ended 31 December 2006

(In million of euros)

	2006	2005
Interest received and similar income	2,367.8	1,757.1
of which: arising from fixed-income securities	*724.6*	*615.4*
Interest paid and similar charges	-2,011.0	-1,385.9
Income from securities	109.7	168.8
a) income from shares and other variable-yield securities	*21.0*	*21.3*
b) income from participating interests	*11.1*	*5.5*
c) income from shares in affiliated undertakings	*77.6*	*142.0*
Commissions receivable	327.3	283.6
Commissions payable	-79.9	-63.1
Net profit on financial operations	46.6	41.1
Other operating income	250.4	66.8
General administrative expenses	-289.4	-284.7
a) staff costs	*-182.3*	*-176.5*
of which:		
- wages and salaries	*-155.9*	*-148.9*
- social security costs	*-21.5*	*-23.0*
of which: relating to pensions	*-16.7*	*-18.2*
b) other administrative expenses	*-107.1*	*-108.2*
Value adjustments in respect of tangible and intangible assets	-23.5	-49.2
Other operating charges	-10.8	-22.8
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments	-21.0	9.0
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	-15.1	13.0
Transfers to “special items with reserve quota portion”	-33.3	-2.2
Income from the writing back of “special items with a reserve quota portion”	12.4	4.0
Tax on results on ordinary activities	-49.1	-66.2
Results on ordinary activities, after tax	**581.1**	**469.3**
Extraordinary income	0.2	-
Extraordinary charges	-	-0.1
Extraordinary results	**0.2**	**-0.1**
Tax on extraordinary results	-0.1	-
Extraordinary results, after tax	**0.1**	**-0.1**
Other taxes not shown under the preceeding items	-1.2	-1.2
Profit for the financial year	**580.0**	**468.0**

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