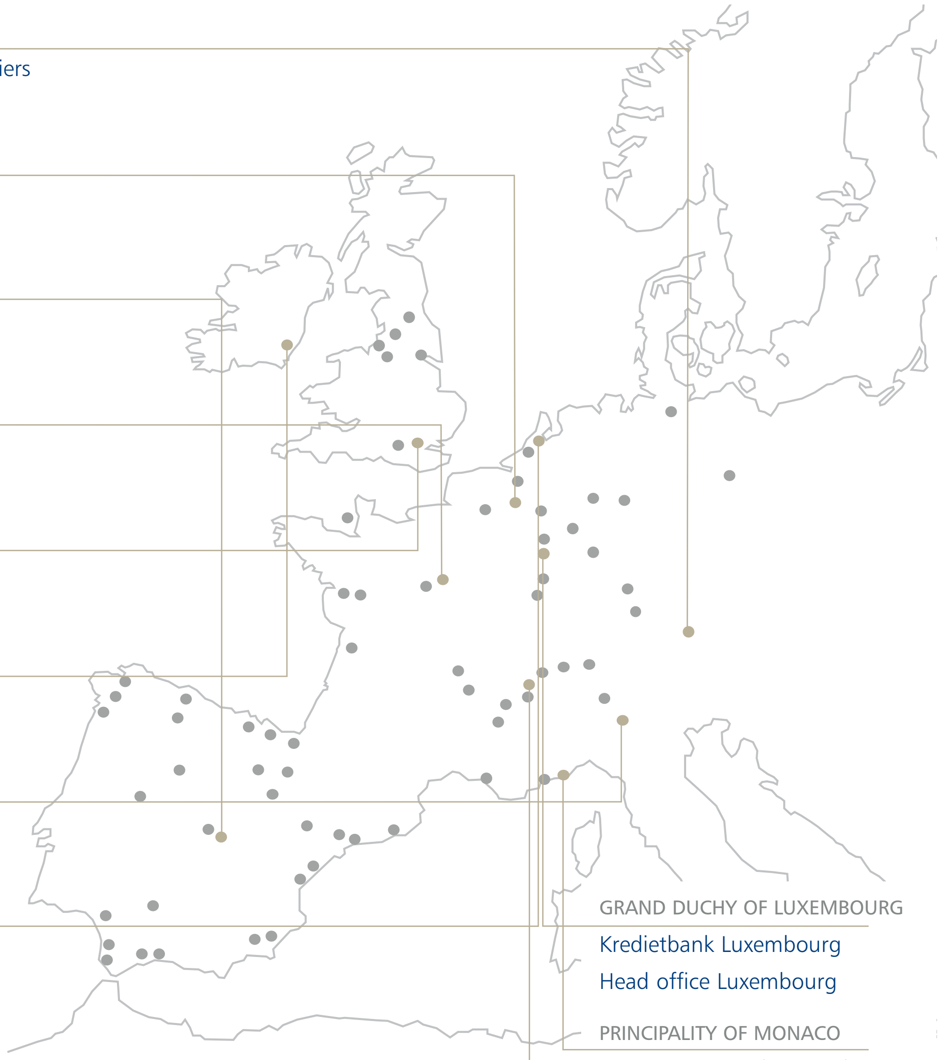
european private bankers

ANNUAL REPORT 2003

Kredietbank Luxembourg

KBL GROUP EUROPEAN PRIVATE BANKERS

110 locations, 11 European countries



GERMANY

Merck Finck & Co, Privatbankiers

Head office Munich

BELGIUM

Puilaetco Bankers

Head office Brussels

SPAIN

Banco Urquijo

Head office Madrid

FRANCE

KBL France

Head office Paris

GREAT BRITAIN

Brown, Shipley & Co.

Head office London

IRELAND

KBL Bank Ireland

Head office Dublin

ITALY

Fumagalli Soldan SIM spa

Head office Milan

THE NETHERLANDS

Theodoor Gilissen Bankiers

Head office Amsterdam

GRAND DUCHY OF LUXEMBOURG

Kredietbank Luxembourg

Head office Luxembourg

PRINCIPALITY OF MONACO

KB Luxembourg (Monaco)

Head office Monaco

SWITZERLAND

Kredietbank (Suisse)

Head office Geneva

The KBL group has representative offices in Cape Town, Hong Kong and Tokyo.

Puilaetco Bankers was acquired on 31 March 2004 subject to the approval of the supervisory authorities

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KEY EVENTS IN 2003

The KBL Group European Private Bankers extended and cemented its activities in Europe and is now present in 11 European countries, including the region's six biggest markets - Germany, Great Britain, Italy, France, Spain, Ireland, the Netherlands, Belgium, Luxembourg, Switzerland and Monaco.

In November 2003, KBL acquired Theodoor Gilissen Bankiers N.V., a highly-regarded private bank established in the Netherlands more than a century ago.

After negotiations begun in 2003, in March 2004 KBL also acquired Puilaetco Bankers, a bank specialised in wealth management and having a solid reputation in Belgium.

As is usual, the agreement between the parties on this new acquisition has been signed subject to the approval of the supervisory Belgian and Luxembourg authorities.

The group strengthened its shareholders' equity by issuing a hybrid capital instrument comparable to basic equity for a value equivalent to EUR 148 million.

Risk management was applied in line with the requirements of the supervisory authorities.

- The Group Risk Management department carries out ongoing controls.
- The role of the Group Compliance Officer has been extended.
- The group-wide drive to voluntarily slim down loan portfolios continues, and the loss ratio on the loan portfolio for the past five years is now just 0.16%.

The group further stepped up its cost control, trimming overheads by 7.2%.

The search for intelligent synergies among the group companies continues.

As at 31 December 2003 the KBL group had a total pan-European payroll of 3 910 employees, of which 68% were working at subsidiaries.

As at 31 December 2003 the consolidated capital adequacy ratio, after allocation of profits, was 15.4% and the consolidated capital adequacy ratio of basic equity ("Tier One") was 10%.

The group's share of consolidated net profit rose by 6.8% to EUR 193.1 million.

A gross dividend of EUR 5.8315 per share, 7% higher than last year, is to be paid.

LETTER FROM THE PRESIDENT

The growth strategy we adopted in the mid-1990s, based on the construction of a group of European private bankers, has proved its worth in the period of change currently being experienced by all banks active on the Luxembourg market.

Agreements on harmonising the taxation of savings income across Europe and the tax amnesty laws introduced in many neighbouring countries have forced Luxembourg's banks to rethink their strategies for the future.

We anticipated these changes by creating KBL Group European Private Bankers, and are now in a position to face them with confidence.

Although the Luxembourg bank requires further restructuring to bring it fully into line with the new market conditions, we have been able to continue providing top-quality services to both international and institutional private clients, through successfully capitalising on the professional expertise of our employees and our Private Banking experience.

Luxembourg's central location, the expertise it has built up in banking services, and the responsiveness of the Luxembourg government and supervisory authorities are just some of the reasons why we decided to base our support services for the entire KBL group in Luxembourg. We have thus generated intelligent and well-considered synergies between the parent company and subsidiaries as a means of optimising our resources. Within a framework of controlled autonomy, all group companies are therefore now able to focus their energies on their core business, whilst at the same time enjoying the support of our pan-European operating structures.

At parent company level, our main strategic objective is to further expand our group of private bankers via both internal growth and acquisitions.

We are not only looking to strengthen the group through acquisitions in countries where we have yet to attain critical mass but also to provide all KBL subsidiaries with the resources they need to pursue further growth in assets under management.

I am delighted to see that events have confirmed the pertinence of our strategy and would like to take this opportunity to thank all our employees, whose unstinting efforts have enabled us to report higher profits, yet again, in 2003.

Etienne Verwilghen
President of the Executive Committee

Situation as at 31 December 2003

BOARD OF DIRECTORS

Jan HUYGHEBAERT
Chairman

Etienne VERWILGHEN
President
Kredietbank S.A. Luxembourgeoise

Jean-Marie BARTHEL
Executive Director
Kredietbank S.A. Luxembourgeoise

Paul BORGHGRAEF
Member of the Executive Committee
Almanij

Antoine D'HONDT
Executive Director
Kredietbank S.A. Luxembourgeoise

Frank DONCK
(until 30.04.03)
Director
Ibervest N.V.

Rik DONCKELS
Chairman of the Managing Board
Cera Holding

Marc FRANCKEN
Managing Director
Gevaert S.A.

Catherine GUYON-SABBE
Managing Director
CGS N.V.

Jan Maarten DE JONG
Adviser of the President of the Managing Board
ABN-AMRO BANK N.V.

Jean-Paul LOOS
Executive Director
Kredietbank S.A. Luxembourgeoise

Edmond MULLER
Industrialist

Luc PHILIPS
(since 30.04.03)
Managing Director Almanij

Marie-Christine VANTHOURNOUT-SANTENS
Director of Companies

Ferdinand VERDONCK
(until 30.06.03)
Managing Director
Almanij S.A.

Philippe VLERICK
Managing Director
B.I.C. Carpets

Damien WIGNY
(until 30.04.03)
Honorary President
Kredietbank S.A. Luxembourgeoise

Frank ERTEL
Staff representative
Kredietbank S.A. Luxembourgeoise

Marc GLESENER
President ALEBA
Staff representative
Kredietbank S.A. Luxembourgeoise

Francis GODFROID
Staff representative
Kredietbank S.A. Luxembourgeoise

Christian HOELTGEN
Staff representative
Kredietbank S.A. Luxembourgeoise

Franz JAKOBS
Staff representative
Kredietbank S.A. Luxembourgeoise

Christine JANSSENS
Staff representative
Kredietbank S.A. Luxembourgeoise

Nico KNEPPER
Staff representative
Kredietbank S.A. Luxembourgeoise

Jean-Marie MOSSONG
Staff representative
Kredietbank S.A. Luxembourgeoise

Marie-Paule NILLES
Staff representative
Kredietbank S.A. Luxembourgeoise

INDEPENDENT AUDITORS

Deloitte, Luxembourg

Situation as at 31 December 2003

EXECUTIVE COMMITTEE

Etienne VERWILGHEN
President

Jean-Marie BARTHEL

Antoine D'HONDT

Jean-Paul LOOS

MANAGEMENT

Adelin BLAISE
Internal Audit

Luc CAYTAN
Trading

Rafik FISCHER
Operations Management

Marie-Paule GILLEN
General Secretariat

Michel GODFRAIND
Private Banking

Jean-Luc MARTINO
IT Department

Dominique MELOTTE
Human Resources & Equipment

Philippe PAQUAY
Accounts and Management Audit

Yves PITSAER
Subsidiaries

Bernard SOETENS
Corporate / Loans and Research

Marie-France DE POVER
Compliance Officer

Christian D'HONDT
Marketing, Communication & Supports

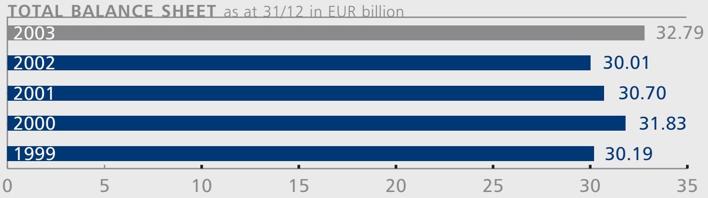
Thierry LOPEZ
Group Risk Management

CONSOLIDATED KEY FIGURES
before allocation

CONSOLIDATED BALANCE SHEET

as at 31 December, in EUR billion	1999	2000	2001	2002	2003
Total balance sheet	**30.19**	**31.83**	**30.70**	**30.01**	**32.79**
ASSETS					
Loans and advances to credit institutions	12.72	13.67	13.23	10.41	12.05
Loans and advances to the public sector and similar	8.37	8.26	7.71	10.22	10.79
Loans and advances to customers	7.43	8.22	8.12	7.67	7.78
LIABILITIES					
Amounts owed to customers and debts evidenced by certificates	15.17	16.61	16.97	18.07	17.31
Amounts owed to credit institutions	11.95	11.70	10.55	8.90	12.70
Shareholders' equity (Tier 1)	0.92	1.06	0.87	0.88	0.99
Shareholders' equity & similar items	1.42	1.54	1.37	1.36	1.53

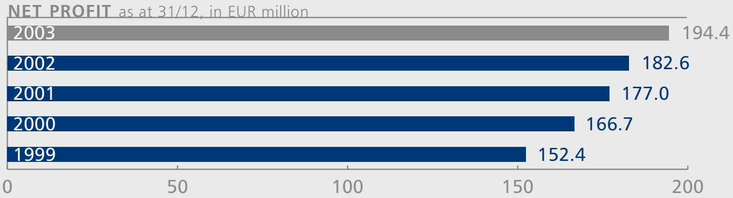
TOTAL BALANCE SHEET as at 31/12 in EUR billion



CONSOLIDATED INCOME STATEMENT

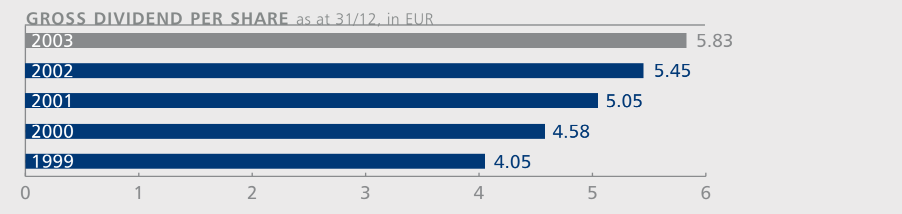
as at 31 December, in EUR million	1999	2000	2001	2002	2003
Net banking income	701.0	952.3	814.0	913.6	822.2
Gross operating income	287.8	454.7	286.5	383.5	330.1
Income taxes and other duties	67.4	70.4	63.7	30.7	62.2
Net profit	152.4	166.7	177.0	182.6	194.4
Dividend	82.3	93.1	102.7	110.8	118.5

NET PROFIT as at 31/12, in EUR million



DATA PER SHARE

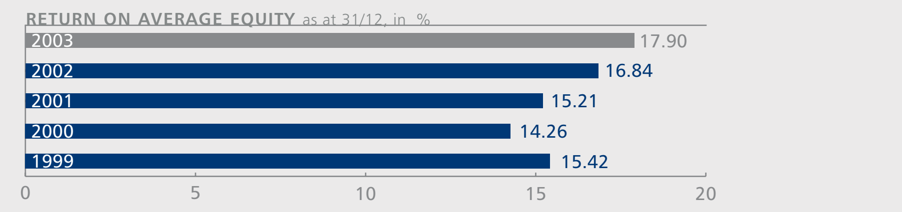
as at 31 December, in EUR	1999	2000	2001	2002	2003
Consolidated net profit (group share)	7.36	7.93	8.57	8.90	9.50
Gross dividend	4.05	4.58	5.05	5.45	5.83



FINANCIAL RATIOS

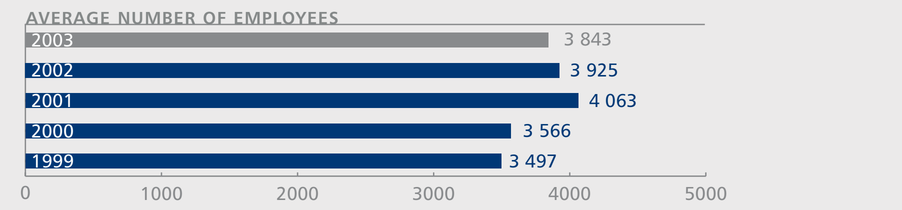
in %	1999	2000	2001	2002	2003
Risk-weighted solvency ratio (before allocation)	11.50	11.58	11.12	12.18	14.41
Risk-weighted solvency ratio (after allocation)	11.86	11.96	11.79	12.97	15.38
Shareholders' equity and similar items / Balance sheet total	4.70	4.83	4.45	4.53	4.68
Bank assets + treasury bills / Bank liabilities	126.49	143.67	152.20	178.45	146.70
Return on average equity (ROAE)[1]	15.42	14.26	15.21	16.84	17.90
Return on average assets (ROAA)	0.58	0.54	0.57	0.60	0.62
General expense / net banking income	58.95	52.25	64.80	58.02	59.85

[1] on the basis of equity before allocation, group share and third parties, including the fund for general banking risks



PERSONNEL

	1999	2000	2001	2002	2003
Average number of employees	3 497	3 566	4 063	3 925	3 843
Net profit per employee	43 585	46 740	43 561	46 524	50 598



SHAREHOLDERS' MEMO

SHAREHOLDER BASE AS AT 31 DECEMBER 2003

	Percentage of ownership	Percentage of control
Almanij Group	**78.64 %**	**84.57 %**
Of which: - Almanij directly	65.25 %	69.79 %
- other companies	13.39 %	14.78 %
Miscellaneous and public	21.36 %	15.43 %

FINANCIAL DATA (end of the financial year)

	1999	2000	2001	2002	2003
Number of ordinary shares	18 353 387	18 353 387	18 353 387	18 353 387	18 353 387
Number of preference shares	1 975 320	1 975 320	1 975 320	1 975 320	1 975 320
Paid-up equity capital (in EUR million)	188.988	188.988	188.988	188.988	188.988
Net profit per share (in EUR) (non-consolidated)	6.62[1]	7.10	7.83	8.43	8.85
Payout ratio (non-consolidated) (dividends & directors' fees/profit to be allocated)	65.38 %	65.23 %	65.30 %	65.49 %	66.52 %
Gross dividend (in EUR)	4.05	4.58	5.05	5.45	5.83
Net dividend (in EUR)	3.04	3.44	4.04	4.36	4.66
Net yield (ordinary shares) (based on share price as at 31.12 of the financial year)	2.54 %	2.95 %	3.74 %	4.29 %	4.04 %
Highest price / lowest price (ordinary shares) (in EUR)	138.50 108.00	125.50 109.00	116.00 72.50	124.50 87.75	125.50 93.00
P/E (based on share price as at 31.12 of the financial year) (ordinary shares)	18.06[1]	16.40	13.80	12.06	13.04
Ordinary share price as at 31.12 (in EUR)	119.50	116.50	108.00	101.63	115.50

[1] based on the weighted average number of shares

Ordinary shares and preference shares are listed on the Luxembourg stock exchange.

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the bank's articles of association, and are therefore guaranteed a minimum annual return. If no profits are reported in the year, this dividend entitlement is carried forward to future years. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend.

The Bank's articles of association specify that, if the company is wound up, holders of preference shares are guaranteed repayment of the capital initially invested, that is EUR 14.56. Holders of preference shares are not however entitled to receive a share of any accumulated reserves.

These differences are reflected in the disparity between the market price of preference shares and ordinary shares.

MANAGEMENT REPORTS OF THE BOARD OF DIRECTORS

KBL Group European Private Bankers: a group of private bankers with their ear to the ground

1.1 THE WORLDWIDE POLITICAL, ECONOMIC AND FINANCIAL CONTEXT IN 2003

Shaking off the uncertainties engendered by the military conflict in Iraq at the start of the year, the world economy moved back onto a growth track in the second quarter of 2003. In the third quarter the US economy recorded its most spectacular advance since 1984, pulling along all the world's developed economies in its wake.

Accordingly, Europe felt the benefits of the upturn in international trade, despite the euro's considerable appreciation, which, especially against the USD, was one of the key features of 2003.

Although not surprising, Chinese economic expansion, which constituted the second engine of world economic growth, was one of the most striking developments of 2003. Japan, China's neighbour and main trading partner, was undoubtedly one of the main beneficiaries.

It should be stressed that this global economic upturn has, to date, taken place in the absence of inflation. Both the US Federal Reserve and the European Central Bank have shown that this is not a concern by maintaining a prudent expansionary monetary policy.

Thus, as companies cleaned up their balance sheets and profitability was restored, the equity markets were able to close 2003 up for the first time in three years.

Leading indicators and the vast majority of economists suggest the economic environment will remain robust in 2004, especially in the US, where labour market improvements are the last link in the chain needed to secure lasting recovery.

Meanwhile, the knock-on effects of China's economic expansion, provided that it manages to avoid overheating, should continue to provide fuel for the neighbouring economies of East Asia and the world economy as a whole.

The KBL group has of course kept a close eye on these developments and has adjusted its sales and marketing structures, and the investment advice it gives to customers, accordingly.

1.2 THE EUROPEAN CONTEXT

Regulatory developments in Europe, along with changes in national legislation and regulations, have a major impact on the market backdrop to the activities of KBL Group European Private Bankers. Not only must we keep up to date with these developments, but also, and more importantly, we need to be able to adapt to them to secure our long-term profitability.

The Feira Directive

The Feira Directive (2003/48) on the taxation of savings income, approved on 3 June 2003, was the first to have a direct effect on our business. Under the terms of the Directive, all EU member states must disclose to their EU partners details of interest paid in their country to individuals resident in other EU member states. Luxembourg, Belgium and Austria are authorised to deduct a withholding tax instead of disclosing this information. This withholding tax on interest payments is to be levied at 15% in the first three years, 20% in the next three years, and 35% in all subsequent years. These three countries will only be required to disclose information once Switzerland, Monaco, Liechtenstein, Andorra and San Marino have agreed to the exchange of information on request in line with the OECD model. The provisions of the Directive are to be applied as of 1 January 2005, providing the Council unanimously declares, no later than 30 June 2004, that Switzerland, Monaco, Liechtenstein, Andorra, San Marino and the dependent and associated territories of certain EU member states are applying measures equivalent to those established in the Directive. Although the Directive is not certain to enter into force on 1 January 2005, the KBL group has taken all necessary steps to be ready for its introduction on the scheduled date. In particular, the Luxembourg bank has provided special training for its advisors and informed its customers, as well as introducing the necessary IT systems to be able to satisfy all possible requests.

Tax amnesties

Several European countries in which KBL Group European Private Bankers is active, or where part of our customer base is resident, have recently launched tax amnesties. This has also led us to make certain adjustments to our operations. Without going into the details of the often complex tax issues involved, below we provide a broad outline of the amnesties and their consequences.

The aim of a tax amnesty – an idea first put forward by Italy in 2001 – is to fuel capital repatriation and so boost the national economy and generate substantial tax receipts.

Italy's *scudo fiscale* (tax shield) allowed taxpayers either to repatriate funds held abroad via a financial intermediary and in total anonymity, or to regularise their tax position in respect of assets held abroad via a fiduciary mandate, again anonymously, or else to regularise their assets held in foreign countries directly, in this case losing their anonymity. To benefit from the amnesty, taxpayers were subject to a one-off tax of 2.5%. Initially restricted to private individuals, the *scudo fiscale* was extended to companies in 2003. To encourage taxpayers to take advantage of the amnesty, Italian inheritance tax was abolished within the fourth degree of kinship.

The success of the Italian amnesty encouraged Germany and Belgium to develop their own amnesty plans, despite a complex political context.

The German scheme, which came into effect on 1 January 2004, offers a tax amnesty to individuals and legal entities for the past 10 years, upon payment of a reduced tax rate of 25% (35% from 1 January to 31 March 2005) on taxable income (for example 60% of revenues in the case of personal income tax and 20% of capital in the case of inheritance tax). This amnesty makes no provision for capital repatriation or preservation of anonymity. It is not yet possible to estimate the impact of this amnesty, which is set to expire on 31 March 2005.

In Belgium, the capital repatriation amnesty law *(loi de déclaration libératoire unique,* or DLU) came into effect on 16 January 2004. The amnesty extends to individuals only, on payment of a one-off tax equivalent to 6% of the assets declared, excluding bearer securities, provided that these assets are re-invested for a minimum of three years in qualifying assets such as built property located within the EU, transferable securities and term deposits. A 9% tax rate is levied on other investments and all bearer securities declared. In the event of capital repatriation, anonymity is guaranteed; however, if the funds are to remain outside Belgium, the taxpayer, although still entitled to the benefits of the DLU, must relinquish this anonymity. Taxpayers have until 31 December 2004 to file their declarations. As in Germany, it is too soon to assess the impact of the Belgium tax amnesty, especially since specialists have identified several areas of uncertainty yet to be clarified – not least exactly which taxes are covered by the DLU.

The KBL group has taken the decision to prepare itself for any eventuality, reorganising its commercial structures as needed to be ready to receive information requests and customer queries both in countries whose domestic customers may be affected by the amnesties and in those with an international customer base.

Anti-money laundering initiatives

2003 was also a year of change in terms of European money laundering legislation. New developments in anti-money laundering provisions were incorporated into Luxembourg financial sector legislation as well as the CSSF (Luxembourg Commission for Surveillance of Financial Services) circulars relating to the fight against money laundering. These provisions require Luxembourg banks to comply with anti-money laundering regulations both in Luxembourg and at their foreign subsidiaries. KBL Group European Private Bankers, which is continuing to expand via the construction of an international network of subsidiaries, has taken the necessary steps arising from these new measures and has, among others, drawn up and implemented several specific anti-money laundering directives and procedures.

More specifically, details of Luxembourg anti-money laundering regulations (including the CSSF circulars) are relayed by the KBL & Group Compliance division to the bank's various departments and transmitted to all members of the group, which apply them in their respective establishments, without prejudice to any stricter local regulations in force.

The UCITS III directives

Although the Luxembourg law on UCI, which transposed the two EU directives known as UCITS III into national law, was actually adopted at the end of 2002, its impact was not evident until 2003. In fact, the law has been very well received by Luxembourg banking professionals, since it gives them greater flexibility, a better distribution of risk and concrete opportunities for development.

This law also broadened the range of funds entitled to a European passport, pursuant to strict transparency criteria, in particular in relation to funds of funds.

Another aim of the new law was to improve investor security and protection. Accordingly, additional obligations have been imposed on management companies and UCITS (Part I), which are henceforth required to publish a simplified prospectus.

The KBL group has made all the internal adjustments needed to take advantage of the opportunities afforded by the new law and to secure its position as one of Europe's leading distributors of investment funds.

1.3 DEVELOPMENTS SPECIFIC TO THE LUXEMBOURG MARKET

Given its resolutely international character and its location in the heart of Europe, Luxembourg is undoubtedly more sensitive than any other European market to the developments described above, notably the tax amnesties introduced in neighbouring countries and, more specifically, in Belgium. At the same time, Luxembourg's supervisory authorities will continue to tighten transparency requirements, in line with trends elsewhere in Europe and throughout the world.

Luxembourg's financial marketplace has on numerous occasions in the past proved its ability to manage change, to adapt and to develop new niche markets.

Now, given the present environment, Luxembourg needs to focus its energies on remaining competitive. And, provided that it concentrates on innovation and the development of expertise, and continues to benefit from a regulatory backdrop and legal framework guaranteeing investors the flexibility and security they desire, it will succeed in meeting this goal.

In 2003, conscious of its key role in the market's future development, the Luxembourg legislator again proved its ability to listen and to respond, in a complex and changing environment.

Firstly, on 27 July 2003 the law on trusts was enacted, its main aim being to broaden the categories of persons permitted to act as trustees. By adopting this law, the Luxembourg legislator also approved the Hague

International Convention on the recognition of trusts, so giving a new dimension to this concept.

Subsequently, the Law of 2 August 2003 modified the Law of 5 April 1993 on the financial sector notably by creating new categories of financial professionals.

The Law of 12 August 2003, meanwhile, which represents part of Luxembourg's contribution to the fight against terrorism and the financing of terrorism, established offences specific to this type of crime. This new legislation is part of the international drive that Luxembourg has been supporting in recent years to combat financial crime.

Other initiatives included a new bill (no 5165) tabled a few months ago, and intended to step up the fight against money laundering in line with the most recent EU directive on the matter. The bill extends anti-money laundering obligations to new categories of professionals (lawyers, tax advisers, UCI) and also covers terrorism financing.

Mindful of the need for further modernisation of Luxembourg's financial sector, in autumn the government tabled a bill on loan securitisation, a technique that has already proved highly successful in neighbouring countries. The text of this bill has just been adopted.

Another bill drawn up with investor interests in mind related to venture capital investment companies (SICAR), a new investment vehicle designed to promote investments in venture capital and private equity by providing a flexible but secure legal framework.

The bill on financial guarantee contracts, tabled in November 2003 with the aim of transposing the EU Directive of 6 June 2002 into Luxembourg law, also seeks to serve investor interests.

Lastly, by rapidly integrating the UCITS III directives into its legal arsenal, the Luxembourg legislator, as mentioned above, has shown its readiness and ability to be flexible wherever EU legislation allows. It is thanks to this flexibility that Luxembourg has been able to establish itself as the leading European market for investment funds.

KBL Group European Private Bankers: a group of private bankers on a human scale

2.1 AT THE SERVICE OF OUR CUSTOMERS

In the face of financial oligopolies…

In a financial environment that is as uncertain as it is complex, and after three years of falling stock markets and high-profile financial scandals, today's private investors need a stable, solid and reliable partner to advise them and guide them through the ever-expanding maze of financial products available.

Customers seeking advice and support may choose to approach one of the very large-scale companies active in all areas of financial services and present in all parts of the world. But the advice, products and solutions that they will be offered may well have been cast in a standard mould and their individual circumstances are likely to have been assimilated with those of numerous other investors, or lost sight of altogether.

… KBL Group European Private Bankers offers a unique alternative

Alternatively, customers could choose to approach a human-scale bank, specialising in a single core business which it has mastered perfectly. A bank where they will be known and recognised, where they will find customised advice tailored to their specific risk profile. The aim of our group, and each of its members, is precisely this: to offer a personalised service, whilst at the same time giving customers the reassurance of a well-established and robust group. Thanks to the support of our shareholder, the Almanij holding company, we have been able to build a group that is broader, more open and more European than a brokerage company or a simple asset management company but also more flexible and closer to its client base than a multinational finance company.

2.2 A COMBINATION BENEFITING ALL OUR PARTNERS

For customers the advantages of working with a group of European bankers of our size are obvious, as described above. The other partners of our group also enjoy far from negligible advantages when they choose to work with us.

Our employees and managers – the partners most essential to our success – and also people with relevant skills and experience looking to begin a career in banking, find our group to be a stimulating workplace with minimal administration and bureaucracy where they can use and develop their skills. At the same time, the proximity and accessibility of management means that employees are able to build relationships of trust. And with the group's European expansion, we can also offer all our employees the opportunity to embrace the changes occurring in our area of activity in a multicultural environment.

We are also striving to attract another type of partner, that is, management companies seeking to expand and looking to join our group as a means of achieving this goal. Our philosophy is to encourage the entrepreneurial skills of local managers whilst allowing them to benefit from the solid support of a group with a European dimension. In addition, whilst retaining considerable autonomy in relation to their business development, they can draw on streamlined, and therefore less costly, common support systems, and unlock synergies in the development of products and solutions tailored to their customers' needs.

2.3 CONTROL STRUCTURE: THE UNIQUE MODEL OF KBL GROUP EUROPEAN PRIVATE BANKERS

A unique initiative in a favourable environment

KBL Group European Private Bankers is steadily expanding, in line with a unique model that may be described as a federalist approach tempered by controlled autonomy.

In its early days KBL was almost exclusively a Luxembourg bank. But in the mid-1990s it took the decision to draw on its experience in private banking and its knowledge of the Luxembourg market to position itself on Europe's other main markets. It is worth stressing that KBL was the first Luxembourg bank to begin this process, which has since proved so lucrative.

Luxembourg is a highly advantageous launch pad for expansion into Europe. Firstly, there is its geographical position. Ideally located between the two largest countries of Western Europe (France and Germany) and just an hour's flight from London and Milan, Luxembourg is, as the adage goes, at the heart of Europe.

Secondly, Luxembourg's long experience in international banking and finance, and its highly skilled, multilingual workforce means that a group of private bankers such as ours, spread over 11 countries, can count on the support of highly competitive centralised services.

Lastly, as stated previously, Luxembourg's regulatory authorities have long supported the development of its financial sector, having quickly understood the contribution of the finance industry to the country's economy. Their flexibility and speed of response, coupled with the professional rigour of supervisory authorities such as the CSSF, have enabled Luxembourg's banks to capitalise on the opportunities afforded by European directives at the first opportunity and thus to develop very specific and exclusive know-how.

A model private banking group

Drawing on all these advantages, KBL Group European Private Bankers has expanded rapidly and in a unique manner.

The parent company in Luxembourg is an autonomous decision-making centre — an exceptional situation in Luxembourg, where most banking institutions active on the market are dependent on decisions made in their country of origin. Being part of the Almanij holding company is also, in this respect, a major advantage. Almanij provides financial support for the expansion of group companies but has entrusted the development of its Private Banking business to Kredietbank Luxembourg.

KBL, as the parent company, provides the impetus and the framework for business development at all group companies but, by allowing controlled autonomy, permits each company to maintain its own business culture. It encourages and respects the entrepreneurship of its local directors, who can both benefit from the group's experience and, thanks to the rationalisation of support services at group level and the development of operational synergies, focus their own resources and energies on serving their clients.

One group, three missions

KBL Group European Private Bankers in Luxembourg has three missions.

KBL, the parent company, sets objectives for the entire group and has direct and indirect control over its subsidiaries via the Group Accounts and Audit division, the Subsidiaries Secretariat, the Group Compliance division and Group Risk Management.

Support services have been gradually brought together in Luxembourg with a view to systematically generating intelligent and well-considered synergies in all areas possible. The group has produced far from negligible gains in productivity and economies of scale, principally in the trading room and back office, but also via the introduction of a shared IT platform.

Lastly, KBL provides services to private banking and institutional clients as a Luxembourg bank.

2.4 SUBSIDIARIES WITH CONTROLLED AUTONOMY

2.4.1 Subsidiaries with a domestic market focus

GREAT BRITAIN

Brown, Shipley & Co.

Brown Shipley is coming to the end of a long period of growth via acquisitions and a rationalisation drive accompanied by a programme of overhead and payroll reductions.

It now has the full range of services needed to establish itself as a true private banker operating under a single banner in three of England's most important economic centres: London, Leeds and Manchester.

By concentrating on its private banking business Brown Shipley was able to fully reap the rewards of the economic upturn from mid-2003 onwards and so post some very respectable operating results.

In addition to its expertise on the London stock exchange, Brown Shipley brings to the members of our group of European private bankers Fairmount's experience in personal pensions, a future growth area for private banking in continental Europe.

Finally, in 2004 our British subsidiary will join all other group companies in using our Globus software. Once the integration is concluded, Brown Shipley should be ready to enter another period of expansion.

SPAIN

Banco Urquijo

As part of a predefined restructuring policy, Banco Urquijo decided to outsource its back-office and support functions, whilst being careful to ensure that the quality of its monitoring systems and front-office client services was unaffected. This is quite possible in

Spain (i.e. outsourcing without any reduction in service quality), as the subcontracting market is extremely diverse and, by extension, very competitive. The outsourcing contract concluded by Banco Urquijo, to subcontract its back-office activities and various other support functions to an external service provider, is expected to result in around 100 of its employees being transferred to this service company.

On the sales and marketing front, our Spanish subsidiary increased the number of its agents dedicated exclusively to private banking business.

This initiative was prompted by the upturn in the equity market, which restored private investors' optimism and revived their interest in managed products. Banco Urquijo's strong positioning in this segment brought a 15% increase in its assets under management in 2003.

GERMANY

Merck Finck & Co, Privatbankiers

The rollout of the new integrated IT platform is almost complete and the final phase of the banking system upgrade is now under way. The deployment of this new integrated platform was an essential part of our German subsidiary's plan to significantly reduce its overheads, a goal it is now well on the way to achieving.

Despite a tough competitive backdrop, Merck Finck and its subsidiary MF Vermögensbetreuung were able to report a substantial increase in customer assets in 2003 – another source of great satisfaction for the bank.

But despite these successes and the major improvements thus obtained, the subsidiary remains on the lookout for further growth opportunities that will help it achieve critical mass in Germany.

THE NETHERLANDS

Theodoor Gilissen Bankiers

We are unable to comment on the 2003 results of the Dutch private bank Theodoor Gilissen in this report as the acquisition has only recently been concluded.

We are, however, able to report that our new Dutch subsidiary has already chosen to install Globus, the group's standard software, which will facilitate its integration.

In 2004 Theodoor Gilissen's goal will be to increase its assets under management and to exploit all the synergies afforded by its integration within our group to reduce costs.

FRANCE

KBL France

Following a structural rationalisation and the rollout of Globus software, 2003 saw across-the-board restructuring at our French subsidiary, with the conclusion of the merger between Europe Egide Finance and KBL France due for early 2004.

The subsidiary is therefore now ready to embark on a fresh phase of growth via acquisition, with a view to attaining critical mass. This is its goal for 2004.

ITALY

Fumagalli Soldan SIM spa

We have initiated procedures to obtain a banking licence for our Italian subsidiary. Once obtained, this will be a major asset for Fumagalli Soldan in fulfilling the mission our group has entrusted to it in Italy.

To assist it in this task, we have provided the subsidiary with all the resources it needs for continued organic growth. This resulted in a significant increase in assets under management in 2003, and further growth is expected in 2004.

2.4.2 Subsidiaries with an international market focus

PRINCIPALITY OF MONACO

KB Luxembourg (Monaco)

Our Monaco subsidiary also increased assets under management in 2003, without relaxing its cost control efforts. As part of our drive to maximise intra-group synergies, we plan to roll out our Globus software in Monaco in 2004.

SWITZERLAND

Kredietbank (Suisse)

In the past, we were present in Switzerland under several banners – KBS Lugano, KBS Genève and BLP Banque de Portefeuilles. This was a reflection of the various acquisitions made in the past.

2003 was characterised by a restructuring of our Swiss operations with a view to harnessing synergies and streamlining organisational structures. The merger of BLP and KBS Genève was concluded on 1 October 2003. We also merged our Basel branch with our office in Zurich, where the potential for expansion is greater. KBS is therefore now our only bank in Switzerland, with four branch offices in Geneva, Lugano, Lausanne and Zurich.

Also in 2003, as in the previous three years, KBS pursued a strict cost control programme, which is already beginning to bear fruit, as is the successful migration of its IT system to the subsidaries' standard Globus software.

GRAND DUCHY OF LUXEMBOURG

Banque Continentale du Luxembourg

In 2003 BCL continued its efforts to reduce overheads. Our Luxembourg subsidiary drew on a number of support functions provided by the parent bank to develop considerable economies of scale with KBL, the Luxembourg bank, the aim being to further integrate the two entities over time.

Kredietrust Luxembourg

Now a subsidiary of Kredietbank S.A. Luxembourgeoise (KBL), Kredietrust Luxembourg S.A. (KTL) works in synergy with the bank to provide the following services:

- portfolio management for private clients,
- portfolio management for institutional clients,
- management of KBL investment funds and certain funds of other banks within the KBL group,
- investment research, analysis and recommendations, in conjunction with other group companies.

KBL as parent company

3.1 MANAGEMENT AND AUDIT DIVISIONS

3.1.1 Subsidiaries Secretariat

The Subsidiaries Secretariat was created in 1997. Its mission is to co-ordinate relationships between the parent company and its subsidiaries and, to this end, provide support to KBL's Executive Committee.

The Subsidiaries Secretariat is also responsible for overseeing the acquisition of all new operating subsidiaries, co-ordinating the entire process from preliminary research through to the due diligence phase. It also oversees the work involved in disposing of existing holdings.

3.1.2 Group Accounts and Management Audit

One of the main tasks of Group Accounts and Management Audit in 2003 was to oversee preparations for the adoption of International Financial Reporting Standards (IFRS) by the companies of KBL Group European Private Bankers. The new harmonised, IFRS-compatible chart of accounts was designed and initially implemented in Luxembourg, before deployment at the group's subsidiaries using a powerful, modern consolidation tool. The subsidiaries' accounts teams received training in the use of this new tool in Luxembourg and have been able to draw on the parent company's expertise in bringing their operations into line with the new IFRS benchmark.

The concurrent development of harmonised management reports throughout the KBL group continued, guided by the observations of the Forum of financial directors of the main group companies. These harmonised management accounts draw not only on financial and accounts information but also on a range of other activity, productivity and profitability indicators.

When applied to the group's main business lines, these indicators allow for internal benchmarking and thus facilitate the setting of targets drawing on best practice throughout the group.

The 2004 budget was prepared largely on the basis of these new harmonised management data, particularly in the core private banking business.

Internal benchmarking is supplemented as often as possible by frequent reference to external sector data.

3.1.3 Group Audit

As the group's investments in Europe have grown, so KBL has stepped up its efforts to tailor internal audit structures to the requirement for constant monitoring of its subsidiaries, pursuant to the strictly defined framework set out in CSSF Circular 98/143 on internal audit procedures dated 1 April 1998. The new internal audit structure was introduced at the end of 1998, at the same time as the KBL Audit Committee. At the parent company, the KBL Audit department is responsible for all audit functions relating to KBL's banking activities in Luxembourg, while the IT Audit department assumes responsibility for all IT-related procedures. The total number of staff employed in the Group Audit and IT Audit departments has steadily increased, in line with the expansion of the bank's scope of consolidation, so as to ensure that the teams are able to fulfil their new responsibilities in respect of the subsidiaries and, in particular, that all group companies conform to the standards in force at the parent company and the regulatory requirements established by the CSSF.

The KBL Group Audit department has four key missions:

- to establish a coherent plan for audit activity within the group,
- to either conduct or review audits of all accounts covered by its remit (all the subsidiaries and KBL parent company),
- to distribute uniform audit methods within all the group's audit bodies,
- and to provide the parent company and subsidiaries, on the basis of harmonised reporting, with optimum visibility on the quality of their internal audit systems.

The KBL Group Information Technology Audit department has the same responsibilities in respect of the subsidiaries in all IT-related matters.

The Group Audit division has an on-going working relationship with the local auditors, whose responsibilities are defined according to international standards in the profession and the requirements established by local supervisory bodies.

The bank's procedures were amended in 2002 to conform to the new IIA[1] standards that took effect on 1 January 2002.

A single audit charter is in force throughout the group and all auditors adhere to the same working procedures.

General guidelines for the organisation of internal audits have been distributed to all group companies, with a view to ensuring that appropriate internal audit principles are uniformly applied, in compliance with regulatory directives.

Larger subsidiaries have their own individual Audit Committees to deal with any major problems encountered in internal monitoring and audit processes.

[1] Institute of Internal Auditors

A quarterly report known as a "flash audit", detailing the audit activities carried out in each of the subsidiaries, is also produced. This flash audit is combined with the parent company audit, which is then submitted to the KBL Executive and Audit Committees and forwarded to the external auditors and KBL's supervisory authorities.

As part of the drive to enhance the group's internal audit systems, an Internal Monitoring and Audit Programme was launched at the end of 1999. The aim of the programme was to establish a multi-annual audit plan for each group company, covering both operating and IT functions, and map out activities, risks and audit checks.

Departmental managers are closely involved in the process of mapping out these activities, risks and audit checks. After a systematic analysis of the risks, the map thus produced is used to identify shortcomings in the internal audit system and draw up potential solutions.

By the end of 2003, all group subsidiaries were covered by the plan, with the exception of our German subsidiary, where implementation was postponed until 2004, after installation of the new IT system, to take full advantage of the improvements to the internal audit process that would be afforded by the upgrade. Implementation of the programme at our new Dutch subsidiary, Theodoor Gilissen, is scheduled to take place in the first half of 2004.

To complete the KBL group's consolidated control over all its subsidiaries, the Internal Monitoring and Audit Programme has also been applied within KBL in its capacity as parent company.

3.1.4 KBL & Group Compliance division

Like many of the bank's units, the KBL & Group Compliance division is organised in such a way that support (advisory activity), guidelines (preventive activity) and adequate supervision (monitoring activity) may be issued to and applied within the subsidiaries. In 2003 we considerably increased the resources of the KBL & Group Compliance division, which regularly provides support to the subsidiaries' Compliance Officers and management, so as to ensure that they are aware of reputation risks, in particular the risks associated with money laundering, and in a position to control such risks. The subsidiaries' Compliance Officers submit quarterly Compliance reports to the parent company, which are then used to prepare the consolidated reports.

The KBL & Group Compliance division has, among other things, also notably been involved in the preparation of internal codes of professional conduct.

Visits to all group subsidiaries to review the various compliance issues are planned for 2004 and the Compliance Officers of all group companies will henceforth meet with the Head of the KBL & Group Compliance division in Luxembourg on an annual basis.

3.1.5 Group Risk Management

The Group Risk Management department consists of three units:

- the Risk Control Unit,
- the Risk Management Unit,
- Group Insurance and Operational Risk.

The *Risk Control Unit* is responsible for controlling market risks (transactions in money market instruments, securities and derivatives, and in the bank's portfolios) and credit risks (counterparty/country risk) at the Luxembourg bank.

The *Risk Management Unit* acts for KBL in its capacity as parent company of the group. In this respect, the Unit has three specific missions:

- management of market risks at consolidated level,
- consolidated monitoring of counterparty and/or country risk,
- overseeing implementation of the new Basel II Capital

Accord at group level.

The *Risk Management Unit* is also responsible for developing methodologies and research for all risks that fall under the responsibility of Group Risk Management, specifically:

- market risk (interest rate risk, exchange rate risk, price risk and market liquidity risk),
- credit risk (counterparty and country risk),
- concentration risk (i.e. ensuring a healthy spread of risks across sectors).

Lastly, *Group Insurance and Operational Risk* internally manages the group's international insurance programme, determining, in conjunction with the subsidiaries and on the basis of risks identified, whether or not such risks can be insured. If they can be insured, the unit ensures that policies are concluded, provides administrative follow-up and manages any claims; if they cannot be insured, it determines the internal insurance policy needed to provide financial cover for the risks concerned.

The unit is also responsible for operational risk management as described in Annex 3.

Finally, the Group Risk Management department is responsible for producing critical appraisals of any new areas of business the bank is considering entering, with a view to assessing the associated risks and the resources that may be needed. This process is gradually being extended throughout the Group.

3.1.6 European Works Council

With a view to "improving transnational co-operation in the field of information and consultation between workers' representatives", the Luxembourg Law of 28 July 2000 (transposing the European Directive of 22 September 1994 into national law) introduced a requirement for all groups of companies employing on the one hand at least 1 000 employees in all EU member states together and on the other at least 150 in any two individual member states, to introduce an information body.

In 2003, after negotiations with representatives of the group's employees, the management of the KBL group agreed to implement a European Works Council. This will be set up in the course of 2004.

3.2 RISK MANAGEMENT

In its role as parent company, KBL has established strict risk management rules applicable to the whole group.

3.2.1 Credit risk

All decisions relating to loans or advances are the responsibility of the Executive Committee, the Credit Committee or one of the other competent bodies designated under the delegation of powers agreed by the Executive Committee in accordance with criteria established in relation to type of operation, amount, term, risk and guarantees. This delegation of powers always requires the involvement of at least two people from different group entities, to ensure that there is no risk of conflict of interest.

Likewise, the parent company's aim in relation to credit risk is to ensure that risk taking at subsidiaries fully complies with the strategy defined by the KBL group. The loans and advances in question are essentially loans accompanying private banking operations, as well as certain types of well-defined credit operations.

Subsidiaries authorised to carry out lending activities have decision-making autonomy but only within individual risk limits specific to the type of operation. Such decisions are subject to regular ratification by committees generally comprising one or more members of KBL's senior management.

In addition, all loan proposals, whether originating from a subsidiary or from the Luxembourg bank, must comply with the counterparty or country limits defined by the KBL Executive Committee, so as to prevent any excessive concentration of risk with a specific counterparty. Risk concentration by sector is also re-examined each time a new loan proposal is made. Risk concentrations are monitored at consolidated level.

As regards credit risk arising on the group's market operations, the parent company establishes unconfirmed lines by counterparty, by product and by country, both for itself and for each subsidiary. These lines are managed at consolidated level and determined centrally.

A more detailed description of the various measures the bank has been introduced in a bid to optimise credit risk monitoring at group level is provided in Annex 4. Information on the breakdown and quality of credit risks is also included in this annex.

3.2.2 Market risks

Securities activity

We take a prudent approach to business on the fixed-income and equity markets and place a particular emphasis on service.

All our operators, whether they are working in Luxembourg or at one of our subsidiaries, must adhere to limits that are predefined, duly analysed and documented by Group Risk Management. Please see Annex 1 for details on the group portfolio monitoring procedures carried out by Group Risk Management.

Foreign exchange activity

The main focus of the group's foreign exchange activity is customer service. The parent company has an increasingly important role as the privileged counterparty of the group's subsidiaries and is constantly striving to further improve its control and position monitoring procedures.

The Executive Committee has for several years defined the bank's forex lines, established precise internal limits and assigned specific powers to the different operators, in full compliance with the prudential regulations in force. Under the KBL group's general policy, taking positions to bet on a rise or fall in any given currency is not permitted outside pre-established limits. Group Risk Management is responsible for consolidating currency exposures on a daily basis.

Activities exposed to interest rate risk

For the prudential consolidation of group risk, Group Risk Management seeks to control interest rate risk at consolidated level.

Although each bank in the group uses its own interest rate risk management methodologies (essentially either VBP and/or VaR), they are all required to submit interest rate risk reports to the parent company, which consolidates exposure in terms of offset annual equivalent risk. This methodology, and the variant of it due to come into use in the near future, are explained in Annex 2.

Liquidity risk

The bank is a net lender on the financial markets. Nonetheless, KBL permanently maintains a certain strategic level of liquidity and a portfolio of treasury bills that may be used to release funds via repurchase agreements.

As part of its methodology, the bank's Asset & Liability Management Committee (ALMAC) carries out a number of ongoing simulation exercises on liquidity levels, using a methodology that will be automated and rolled out throughout the group in the course of 2004.

3.2.3 Operational risk

Operational risk undoubtedly remains one of our main concerns, as evident in our unstinting drive to improve our internal audit systems and to actively monitor progress in the implementation of the new capital adequacy regime, in which operational risk plays a significant role.

National and international regulatory developments (CSSF, CAD and Basel II) are methodically analysed and independently integrated within a global action plan at group level.

Management of operational risk is the responsibility of the Group Insurance and Operational Risk unit, which reports directly to Group Risk Management. The bank's approach to operational risk management, and the initiatives already in place, are detailed in Annex 3.

3.2.4 Legal risk and reputation risk

Legal risk

At parent company level, legal risk is managed by the Legal Department.

This Department's main function is to provide legal guidance and advice. All areas of the bank can consult its legal experts on any national or international legal matter. The Department's legal experts also provide support to sales staff in their client contacts, so ensuring that they have the best possible understanding of customer needs and are thus able to resolve any problems that may arise.

Other key activities of the Legal Department include examining and drawing up agreements, legal analysis of planned operations, advice on acquisitions, reviewing and updating the bank's standard agreements, and managing any legal disputes that may arise.

As the group has expanded, the Legal Department has also on numerous occasions acted on behalf of subsidiaries, either directly or through lawyers working for the subsidiary, with whom the Legal Department maintains regular contact.

Reputation risk

The KBL & Group Compliance division, among others, manages reputation risk.

Compliance is responsible for implementing all measures designed to prevent the bank and the group from suffering damage or loss, whether financial or otherwise, due to a failure to comply with regulations in the broad sense. The main tasks in this area are identifying compliance risks, organisation, control, devising and implementing corrective measures, internal reporting and communication with the public prosecutor and CSSF on money-laundering and insider trading matters. The three-fold role of advice, prevention and control is thus clearly at the heart of the Compliance division's mission.

To effectively avoid reputation risk, the Compliance division has made it a priority to follow banking codes of conduct, anti-money laundering and anti-terrorism initiatives, the detection of insider trading and market abuse, investor protection and customer complaints, supervision of employee transactions, and the fight against fraud, including organised tax evasion and, in particular, tax fraud.

It also pays particular attention to the bank's client acceptance policy. Decisions on whether or not to accept customers are dependent on the bank having adequate prior knowledge of the customer and the nature and origin of the funds to be deposited with the bank, as stipulated in CSSF Circular 2001/40. Sufficient information must be collected to enable the Bank to form a judgement of the customer. If any doubts as to whether to open an account persist, the application is rejected.

Lastly, to assist the Head of the KBL & Group Compliance division in his mission, as well as an Enquiries/Testing & Control Officer, the bank has also appointed an Anti-Money Laundering Officer, dedicated exclusively to anti-money laundering and anti-terrorism initiatives, and a Bank Compliance Officer, responsible for advice and prevention in respect of all Compliance matters other than money laundering.

3.2.5 Business Continuity Plan

Plans to design and develop a business continuity strategy, begun in 2001, came to fruition in the course of 2003 with the implementation of the KBL Business Continuity Plan (BCP). The plan embraces all key activities of Kredietbank Luxembourg and its subsidiary Kredietrust.

Objective

The aim of our continuity plan is to restore key service functions as soon as possible after a disaster, by implementing a series of interdependent procedures, including:

- the Disaster Mitigation Plan, which consists of a set of permanent measures designed to prevent unforeseen incidents from disabling key functions and systems,
- Emergency Response measures, enabling the bank to respond immediately to any incident that may physically endanger persons and bank property,
- the Business Recovery Plan, which establishes predetermined procedures to be implemented as quickly as possible in the event of an incident, with the aim of ensuring the continuity of critical functions and systems or reducing downtime,
- the Business Resumption Plan, initiated and supervised by the Executive Committee, and essentially designed to keep the period of application of the business recovery plan to a minimum and restore full service functionality as rapidly as possible.

The above programmes are designed to prepare for a sudden and unexpected event preventing access to, or even destroying, our main offices (43 bd Royal and connected buildings). Their aim is to deal with the effects of such an incident: i.e. a site, unit, or department rendered inaccessible, regardless of the cause.

Under the solution set out in the business recovery plan, which is the central pivot of the continuity plan, all functions would be moved to group-owned back-up sites in the event of a disaster. Two emergency sites owned by the bank and located several kilometres away from the head office, have been selected to house our critical functions in infrastructures provided with all equipment, IT applications and external information flows, as well as vital means of communication. The plan envisages the resumption of activity within four hours of the disaster (Recovery Time Objective) for 25% of workstations normally used and 34% of employees. A progressive recovery process would then allow full functionality to be gradually regained in the days following the disaster.

The decision to adopt this solution was guided by strategic considerations, the main aim being to ensure that we could still meet all commitments to our clients and professional counterparties. To this end, we equipped ourselves with appropriate emergency infrastructures, including an emergency dealing room, paying particular attention to:

- preserving our freedom of action and ability to take initiatives, by limiting the number of external parties involved,
- ensuring the continuity of the emergency plan, by defining a security perimeter setting an appropriate distance between the affected area and the chosen back-up sites,
- achieving the right balance between objectives and the means needed to ensure a rapid resumption of activity and a gradual ongoing increase in necessary resources,
- respecting the constraints associated with our business, such as security and confidentiality, and meeting requirements for receiving clients on the bank's premises.

The BCP as an operational risk management tool

The Business Continuity Plan has provided the bank with an additional operational risk management tool, for which specific structures have been set in place. This approach is fully in line with the Basel II recommendations, which stipulate that the operational risk management measures deployed by banking institutions must take extreme events into account. The implementation of a BCP is explicitly referred to as "good management practice" and satisfies the three essential objectives of any risk management mechanism: firstly, to prevent loss, secondly, to transfer or finance unavoidable risks, and lastly, to be actively prepared for recovery in a crisis situation and to limit the impact of any such incident.

Role of KBL in providing support services

The decision was taken to develop all support services in Luxembourg so as to optimise use of group resources, harness intelligent and well-considered synergies between subsidiaries and parent company, and, wherever possible, develop intra-group economies of scale.

4.1 DEALING ROOM CENTRALISATION AND COORDINATION

The market activities of the parent company in Luxembourg focus on two key objectives:

- first and foremost, to support the development of our Private Banking and Asset Management businesses, both at parent company level and at our subsidiaries,
- secondly, to maintain an active presence on the traditional international financial markets vis-à-vis our banking and institutional counterparties in Europe.

Concentration of flows at Group level

The parent company's dealing room, which is the group's largest, has further expanded its co-ordinating role in respect of our subsidiaries, besides acting as their privileged counterparty.

Subsidiaries have to carry out all their market operations via the parent company dealing room, so as to reduce the group's global exposure to market risk, thanks to the support of an integrated position and flow monitoring system. Group treasury management is thereby centralised at the parent company.

However, certain subsidiaries, including Banco Urquijo, Brown Shipley and Merck Finck, carry out specific regional activities, and are looking to expand regional business, given their local market expertise. These subsidiaries make their skills and expertise available to other group companies via the Luxembourg dealing room, which has a centralising role.

Management of banking lines of credit is likewise centralised at the Luxembourg head office, thus ensuring that these lines of credit are shared appropriately between the respective markets in which members of the group operate.

Automated processing

For the receipt of fund inflows from our subsidiaries and other intermediated flows, we have implemented straight through processing (STP), ensuring automated transaction processing from the moment an order is entered to the time the order is settled and thus minimising order execution times for all group clients. Manual processing is kept to a bare minimum.

With a view to improving the overall profitability of our operations, we use electronic trading platforms wherever possible. These systems allow our subsidiaries and main counterparties to execute buy and sell trades with the processing of these fully integrated into automated administrative channels, within agreed limits, based on prices published by traders and available on-line. They also enable our subsidiaries to subcontract their back-office functions to the parent company, and therefore to generate considerable economies of scale.

4.2 MANAGEMENT AND DISTRIBUTION OF KBL GROUP FUNDS

The group's rapid growth has resulted in a similarly marked expansion in the range of Undertakings for Collective Investment (UCI) we are able to offer our customers throughout Europe. After a transition period that enabled us to better assess the strengths and weaknesses of our range, in 2003 we embarked on a major overhaul designed both to streamline the range and increase its specialisation, thereby better equipping us to compete in an increasingly tough market environment.

Consequently, as from mid-2003, we withdrew certain funds and sub-funds that were either limited in their appeal (duplications, or invested in less promising markets) or considered too small to be properly managed or to justify the related overheads. To protect our customers' interests, such closures, which are set to continue in 2004, are generally via absorptions into similar sub-funds.

In tandem with this rationalisation, an internal reorganisation at KTL led to the merger of the Fund Management and Institutional Management divisions to create a new Institutional & Fund Management unit. As part of the merger process, the asset management teams were also restructured, with the aim of increasing specialisations in given areas of activity. One team is now responsible for managing equity and balanced funds *(Equity & Balanced Portfolios)*, another is responsible for fixed income funds *(Fixed Income Portfolios)*, while a third is responsible for selecting and monitoring alternative or third party funds *(Third Party Fund Selection)*. Any areas where we believe we have insufficient expertise will be subcontracted to external managers selected by the Third Party Fund Selection team.

To improve product sales and marketing, we have enhanced many of our communication tools, most notably launching a group internet site (www.europeanprivatebankers.com) available in six languages and incorporating all information likely to be of interest to investors conversant with new technologies (monthly fact sheets, Fund Newsletters, prospectuses, annual reports, etc).

4.3 INVESTMENT RESEARCH

The decision-making process

In parallel with these improvements to fund management systems, the KBL group undertook a review of the decision-making mechanism applied in the design of investment strategies, in recognition of the international dimension that KBL Group European Private Bankers has now acquired.

This review led us to harmonise decision-making processes across all group subsidiaries, regardless of the profile of their customer base. The first change involved a switch to monthly meeting schedules for the different committees, with the aim of improving our ability to respond rapidly to changes in the various markets.

Procedures were then enhanced to give all employees, according to their area of expertise, the opportunity of contributing to and enriching the decision-making process. Accordingly, the opinions of all employees are now canvassed, via various meetings guided by or reporting to the Investment Committee, whose duties are limited to determining over- and under-exposures to the different asset classes. The resulting decisions are then adapted for use in the different subsidiaries. While subsidiaries with an international customer base use the asset allocations defined by the Investment Committee, subsidiaries with a domestic customer base may adjust allocations to their own criteria.

The benefits of broader expertise

Given the changes described above, our Investment Research division clearly needed to adjust to the new environment and in 2003 we began the process of building a new research structure.

The plan is to bring all the group's research teams together within this division, so as to give the unit a clear international dimension and broader capabilities, thanks to the contributions of analysts with recognised expertise in individual markets.

Employees will be assigned to a particular area (macro-economics, interest rates, sector analysis, securities selection) on the basis of their specific expertise, so ensuring that the integration benefits all involved.

A further benefit of the change in structure is that, instead of having a small team of analysts systematically tracking a predetermined range of European and US securities, we will in future be able to carry out rigorous sector allocation and stock selection analysis that can then be used to the advantage of all.

The new enlarged investment research team should be established in the course of 2004

4.4 CENTRALISATION OF GLOBAL CUSTODY ACTIVITIES

This division's strong performance in 2003 was the fruit of a steadfast commitment and drive, firstly, to develop and improve Global Custody services for institutional customers and, secondly, to position the Luxembourg bank, which has solid expertise in UCI services, as a dedicated skills centre serving all KBL group subsidiaries.

In fact, 2003 saw a significant strengthening of the high value-added Global Custodian services we provide to our network of subsidiaries. The main focus of our efforts was to leverage potential synergies and harness economies of scale arising from the centralisation of our custodian banking business in Luxembourg. Looking to the future, we intend to develop still further the range of operational services provided to KBL Group European Private Bankers companies from Luxembourg and also to extend them to the new companies that have recently joined the group.

4.5 GROUP INTRANET: FACILITATING INTRA-GROUP ORGANISATION

The parent company's Organisation Division keeps group subsidiaries systematically abreast of all relevant legal and regulatory developments in Luxembourg, general organisational principles and intra-group procedures via the group's intranet.

Organisation is responsible for defining the general organisational principles that must be respected at group level. These general principles formalise the guidelines applicable within each group company and incorporate legal and regulatory obligations as well as the Bank's strategic orientation in the matter of organisation.

Local procedures implementing Luxembourg regulations or resolutions of the parent company's Executive Committee within subsidiaries are monitored by the parent company's Organisation Division after their entry into force.

4.6 ROLLOUT OF GROUP INFORMATION TECHNOLOGY SYSTEMS TO KBL SUBSIDIARIES

An efficient service bureau

To optimise our cost structure and release further synergies within our group, we have established a service bureau to assist our subsidiaries in the installation and use of IT applications. The department's work is facilitated by the KBL group private network that links all our subsidiaries, with absolute security guaranteed.

The main application of this infrastructure is group communication with the Swift network (the interbank message system). For our subsidiaries BCL and KBL France, access to the Swift network has already been consolidated and centralised in Luxembourg, and the consolidation process will be extended to other subsidiaries in 2004.

The second application of the service bureau is to provide subsidiaries with an integrated banking platform built on our Globus software. Use of a common platform is a major contribution to group unity, albeit within the model of controlled autonomy that we have chosen. The common platform is now operational and, from January 2004, will be used to process banking and asset management business at KBL France. There are plans to roll out the platform at other subsidiaries in the course of 2004.

Support for the restructuring of KTL Asset Management

2003 also saw the launch of a major drive to equip KTL asset managers with specialist software for managing the assets of both private clients and UCITS. The tool includes a highly sophisticated order generation function able to align portfolios with predetermined investment policies. The software can also be used to produce top quality reports.

Activities of KBL, the Luxembourg bank

5.1 PRIVATE BANKING, OUR CORE BUSINESS

A personalised approach

In our core business we have sought to render the services we provide our international customers in Luxembourg even more personal. We are convinced that this personalised approach increases customer satisfaction and loyalty with every meeting or contact.

With this in mind, we have taken all necessary measures to ensure that our customer advisors are equipped to provide the best possible service and information, especially in view of the harmonisation of European tax regulations, due to take effect in January 2005, and the tax amnesties launched in Belgium and Germany.

Also with a view to improving our customer services, the main reception area at our headquarters will undergo major refurbishment work in the course of 2004.

Once the refurbishment is complete we will be able to welcome our customers in even greater comfort and even more discreetly. But most importantly, we will be able to extend the type of welcome that best befits their specific requirements.

A strategy adjusted to the customer's risk profile

In 2004 we plan to install a new IT tool that will computerise monitoring of customers' investor profiles. Using a detailed computerised questionnaire, customers will be asked to specify their tolerance of the risks inherent in financial market investments. This information will henceforth constitute an integral part of the IT tools used in portfolio consultations.

Priority to private banking

Private banking is one of the fastest expanding businesses of the KBL group. For this reason, and in the light of recent developments, in 2003 we considered it essential to review the division's mode of operation and the resources that should be allocated to it.

For this purpose, we took the decision to equip the management teams with new software tailored to the needs of both institutional asset management and private banking. This tool, which was rolled out in the course of 2003, should enable private banking to effectively manage a large number of portfolios with no increase in staff levels and significantly improve management quality, by affording faster response times, better portfolio harmonisation and, consequently, more tangible results. Accordingly, we made a concerted effort to ensure that the new software was in place by 1 January 2004.

The second change resulting from this, which is due to take place in 2004, entails achieving greater specialisation within our management teams by segregating the two sides of the business. Thus, in the course of the year, part of the team currently at Kredietrust will join the bank's sales team with a view to securing closer links between managed clients and product promotion. KTL will henceforth be responsible for only the purely technical side of portfolio management and the team remaining will no longer have direct contact with customers.

This major transition has already begun, specifically with the introduction of new procedures and above all the assignment of staff to one or other of the two teams. This division of duties, which is guided by an assessment of the particular strengths of each employee, should significantly improve both sides of the business and in so doing, ensure a smooth transition from the customer relations' point of view.

Recognised experience in UCI management

Our Luxembourg operation's expertise in bond management, which has borne fruit on numerous occasions in the past, was highlighted again this year when our five main bond sub-funds (KB Lux Bond Fund - Euro, Short Invest Euro, USD, Short Invest USD and Interbond) were awarded Standard & Poor's ratings in recognition of their steady performances and the quality of their management teams and procedure.

Transparent and comprehensive information

New information materials produced in the year included a new, more comprehensive guide to KBL funds, available in six languages to our international private clients. We also launched a new KBL website, www.kbl.lu, in four languages. Here customers can track the net asset value of their funds on a daily basis and access all the necessary information on KBL's investment strategies.

5.2 SERVICES FOR INSTITUTIONAL CLIENTS

KBL, the Luxembourg bank, offers an integrated service to numerous financial players, targeting in particular:

- UCI,
- Pension funds,
- Captive reinsurance companies,
- Luxembourg banks,
- Financial services professionals.

As well as making integrated structures available for the constitution and domiciliation of UCI and pension funds via European Fund Administration (EFA), and the constitution and domiciliation of captive reinsurance companies via Gécalux, of which we control 50%, we offer Luxembourg banks and other financial services professionals a range of facilities including managed accounts, securities custody, order routing and execution, and other dealing room services.

Services offered to institutional customers range from administration and custodian banking services for UCI, including those provided by EFA (see 5.2.1), dealing room services (see 5.2.2), global custody and other operational support services (5.2.3), and institutional management services (5.2.4), to services offered by specialist companies such as Gécalux, which handles reinsurance business.

5.2.1 Central administration and custodian banking services for Undertakings for Collective Investment (UCI)

Increase in assets administered by KBL, the Luxembourg bank

In terms of the domiciliation and administration of investment funds, the bank has just turned a corner after a very mixed year. Although there was no decrease in the number of new sub-funds constituted (in fact there was a slight increase on previous years), closures and departures of funds were more numerous and the bank ended the year with a net reduction in both assets under management and structures/sub-funds. In line with developments on the market as a whole, the bank had to absorb the effects of intra-group restructuring at international level among a number of its fund promoters. This resulted in the repatriation of investment funds previously domiciled at KBL to parent companies or specialised subsidiaries. In addition, heavy pressure on the profit margins of asset management companies and fund promoters, coupled with the supervisory authorities' commitment to ensuring the financial viability of investment vehicles domiciled in Luxembourg, led many promoters to restructure their range of UCI, either by closing the least profitable sub-funds or simply winding up the entire UCI.

Total assets under KBL management as at 31 December 2003 amounted to EUR 23.7 billion compared with EUR 25 billion at the end of 2002, a 5.2% reduction over the year. The number of sub-funds was a net 51 units lower, representing a 10% decline on the previous year. The bank was however able to maintain very healthy profit margins in its UCI domiciliation business since this cutting back process enabled it to rid itself of less profitable business flows.

On the commercial front, the bank cemented its position as the leading domiciliation agent for funds of hedge funds on the Luxembourg market. According to a recent survey conducted by KPMG Financial Advisory Services, this type of investment fund accounts for EUR 9.4 billion of funds domiciled in Luxembourg, indicating that, since over EUR 3 billion is domiciled at KBL, almost one third of assets held in funds of hedge funds in Luxembourg are administered by KBL.

Future trends are also promising for our Private Equity business, using our cumulative experience in this area to encourage new business customers to domicile their funds at KBL/KTL. The new law on venture capital investment companies (SICARs), once passed, should also help us strengthen our positioning in this area of activity.

The role of European Fund Administration

In the provision of services to the investment fund industry, KBL carries out all custodian banking functions while its subsidiary Kredietrust is responsible for central UCI administration. Since 1998 Kredietrust has subcontracted fund accounting and registrar services to a specialist company, European Fund Administration (EFA), in which KBL has a 39% shareholding.

At the end of 2003, EFA had 1 150 sub-funds under administration vs. 1 080 a year earlier, a rise of 6.48%. Net assets under administration were stable, with a global volume of EUR 69 billion as at 31 December 2003. In addition to maintaining its lead position in the UCITS segment, EFA made a major breakthrough in 2003 in the provision of services linked to life assurance products, and is now providing administration services to five Luxembourg-based insurance companies.

In 2003 EFA furthered its drive to flesh out the range of services it offers, focussing in particular on registrar and transfer agent services and value-added services such as performance measurement and risk control.

5.2.2 Dealing room activities

Brokerage activity

Our experience in fund unit administration is highly regarded and we are one of the leading players on the Luxembourg securities exchange. In addition, we are continuing to develop our trading platform for third-party funds to enable our professional clients to benefit from our expertise in this field.

In 2003 we concluded a number of internal projects enhancing our trading platform and are now able to trade in equities electronically on all the world's main stock exchanges. Our system will very soon enable us to group orders entered electronically by our various subsidiaries and other institutional clients. Results in the segment reveal an increase in trading volumes, on the back of the generalised market recovery, particularly since the last quarter of the year.

On the bond markets, despite the pressure on long yields and steepening in the yield curve that began in the second half of the year, we maintained high levels of activity, leveraging our active presence as market maker on our automated trading platform.

Given the variety of listed bonds available, our sales team was able to achieve yet another sharp increase in volumes, thanks to the growing number of investors and institutional customers we serve.

2003 was also a good year for our treasury department, where our expectations of base rate cuts by all major central banks allowed us to meet profitability targets.

New issues

On the primary market for corporate bond issues, investments by professional investors exceeded those of private investors, reflecting a much more competitive environment. But despite a still extremely volatile market, we were able to sustain a level of activity in line with previous years and participated in a total of 234 new issues.

Treasury management

We have adopted an active treasury management policy and the KBL group remains a net lender in the market. In this context, we use repurchase and reverse repurchase agreements to optimise the group's treasury management and increase returns on our portfolios. To exploit market opportunities in this area, we have also added securities lending and borrowing operations – on both our own account and the account of institutional customers — to the range of services we offer.

We pay close attention to the quality of our banking counterparties and the geographical breakdown of their business. In addition, for the investment of any cash surpluses we may have, we maintain a portfolio of treasury notes combining zero sovereign risk and liquidity.

Finally, results on our foreign exchange activities remain very satisfactory, particularly in the corporate segment.

5.2.3 Range of operational services

Compared with figures for the end of 2002, our securities custody division achieved improvements in almost all areas of its business. Although this was partly due to the upturn in the market, much of the improvement was attributable to fresh fund inflows. The increase in asset volumes was most pronounced in the professional customers' segment, as mentioned above. In fact, our specific expertise in the provision of global custody services to this type of customer is one of our key strengths.

The stock market recovery brought a revival in transactions concluded on behalf of UCI for which KBL acts as custodian. Despite significant numbers of mergers, absorptions, closures and transfers effected with a view to repatriating third-party UCI within their own groups, deposits made by our UCI customers were broadly in line with the previous year. In addition to our securities lending business, which achieved very respectable results, with its value added features continuing to be greatly appreciated by our institutional and professional customers, in 2003 we launched a new market activity – repo, or repurchase, agreements. To further leverage our expertise in these extremely specialised business lines, we also established a dedicated operational unit to manage such transactions.

With the beginnings of a market recovery intensifying in the second half of the year, our back office activity picked up significantly, mainly as regards securities transactions, and more specifically, transactions in fund shares and units. Volumes of transactions and accounting operations for were markedly higher than in 2002.

In an endeavour to further improve our service, we dedicated considerable resources to upgrading our IT applications. These efforts are set to continue in coming years, as we strive to further enhance order reception, execution and settlement and the processing of corporate actions and other operations, with a view to achieving an even greater level of automation and even more advanced straight-through processing.

5.2.4 Institutional management services

Rise in institutional assets invested in funds

Responsibility for marketing our asset management services to institutional customers has been entrusted to the KTL Institutional Sales, which comprises Institutional Sales-KBL Funds and Institutional Sales-Discretionary Mandates.

IS-KBL Funds has the task of promoting KBL funds to professional and institutional clients. In 2003, assets under management more than doubled thanks to the signing of more than 10 sub-distribution and investment contracts with banks, insurance companies and intermediaries located, for the most part, in Luxembourg, France and Italy.

The relaunch of open architecture, funds of funds (advent of UCITS III), and defined contribution pension plans (third pillar), all linked to the upturn on the financial markets and some remarkable performances from KBL group products, helped the department position itself as one of the new flagship distributors of investment funds across Europe.

Commercially, 2004 will be a year of heightened distribution activity in Italy, Switzerland, France and Luxembourg and the start of market assessment in Scandinavia, Germany and the UK.

Increase in assets under mandate and strategic study

IS-Discretionary Mandates has the task both of serving institutional clients whose financial assets are managed under discretionary mandates and developing this clientele across Europe. During the past year, managed assets increased by more than 30%, from both existing and new customers.

Over the same period, we carried out research into potentially attractive segments of the institutional business with a view to expanding, and also more efficiently diversifying, our assets under management.

In 2004 the types of institutional clients likely to be approached in this context are mainly medium-sized pension funds, insurance companies, foundations and captive reinsurance companies, working in synergy with Gécalux.

5.3 PROPRIETARY ASSET MANAGEMENT

5.3.1 Corporate Banking and International Loans

Although 2003 was a year of economic fragility and financial and accounting scandals in Europe, and a stream of profit warnings leading to a succession of ratings downgrades, our portfolio remained remarkably robust, reflecting the success of our highly selective risk acceptance policy. The consolidated loss ratio on our loan book is the best proof of this at just 0.21% in 2003 and has averaged 0.16% over the past five years.

As in the past, our international loan business was largely concentrated at the parent company and at our Irish subsidiary KBL Bank Ireland (KBLBI). New international financing consisted mainly of FRNs (Floating Rate Notes) and SAS (Synthetic Asset Swaps).

Our Dublin subsidiary is responsible for the portfolio inclusion of asset-backed securities, all senior tranche with ratings of AAA or AA+. Residential Mortgage Backed Securities are the largest category in KBLBI's securitisation portfolio.

5.3.2 Financial agency services

KBL provides financial agency services as part of its Corporate Trust & Agencies business, acting as agent for issuers of securities and providing services throughout the life of the bonds, warrants, equities and funds issued. The bank also acts as listing agent on the Luxembourg stock exchange, the main European market for the listing of international issues.

Although we face fierce competition from banks able to offer a global service, we remain one of the leading listing agents in Luxembourg, recognised for the quality of service we provide both for stand-alone issues and for issues launched as part of medium-term notes programmes.

5.4 INTERNAL SUPPORT ACTIVITIES

5.4.1 IT tools

Modern functionalities in a proven IT architecture

After heavy IT investments over the past four years, we have now totally replaced 62% of our installed base. We expect this figure to rise to 88% by 2005.

Ongoing support for our private banking consultancy business

In the course of the year, new customer cash management functions were introduced to the dedicated work stations used by our customer relationship managers, with the aim of enabling them to incorporate active cash management into their advice and to invest cash in line with customers' risk profiles and market opportunities.

Taxation of savings income

Following publication of the Ecofin Directive on the taxation of non-residents' savings, we embarked on a major cross-departmental initiative to analyse the Directive in depth prior to its integration within our IT systems. A multi-disciplinary team charged with assessing its operational and commercial impact was established and very quickly reached the core decisions. Most of the resulting work has now begun.

Lending business

A new platform based on a dedicated software package is in the process of being installed. The new platform will offer automated, integrated processing for credit agreements and international loans and credit lines while at the same time complying with the requirements of the new International Financial Reporting Standards (IFRS). .

5.4.2 Accounts and management audit

Preparations for the adoption of IFRS continued in 2003. As well as producing accounts restated to international accounting standards, accounts teams worked together in selecting and adapting a number of IT applications, including those used to manage the bank's securities portfolio, repo and reverse repo operations, loans and general expenses. We are also in the process of evaluating software for the account management of micro-hedging operations in line with IFRS.

2003 also saw the launch of a major plan to harness synergies in keeping accounting records across all the group's Luxembourg-based companies. KBL's accounts teams now handle book keeping for Kredietrust, KB Lux

Immo, GIE Informatique, Centre Europe and Financière et Immobilière.

Another major project, begun in 2002 and entailing the rollout of a tool that measures the profitability of the bank's various business lines, has now come on stream. The tool will gradually become the bank's benchmark for measuring and monitoring profitability. It also enables adherence to the requirements of IFRS 14 on sector reporting.

Meanwhile, the implementation of new general expenses management software, also integrating IFRS-compatible features, has helped streamline audit and expense management processes.

5.4.3 Human Resources Management

Control of personnel expenses

The personnel expenses containment targets set for 2003 were achieved. As we predicted, measures encouraging staff to take early retirement or unpaid sabbaticals, accept part-time working arrangements, and/or "buy" additional leave entitlements enabled us to reduce the payroll by more than 100 full-time equivalents (more precisely, 110 FTE). We will continue this policy in 2004.

As a precautionary measure, we established provisions for all future costs deriving from the early retirement scheme, which were charged against 2003 income.

In 2003 we also replaced external recruitment plans with a large-scale internal mobility scheme, thus ensuring that essential posts were filled by internal staff. Over 160 people (double the average number of internal transfers in typical years) expressed interest in the job offers published on the intranet.

Stock options

Under the terms of KBL's 2001-2005 employee stock option plan, options issued in 2001 may be exercised for the first time in September 2004.

The shares acquired by employees will be made available via a capital increase. Almanij has undertaken to buy back shares at the notional value fixed for 2004, on the basis of 2003 results.

The total number of options accepted by employees in respect of 2001 represents 0.85% of total share capital. It should be recalled that total shares owned by employees must at no time be equivalent to more than 4% of total share capital.

Training

With regard to cost cutting objectives recent technological advances in the field of teaching by computer have allowed KBL to set up a "learning centre" where employees can study languages as well as office and banking techniques. As a complement to more traditional forms of learning this will be of especial use to those taking advantage of mobility within the bank.

Consolidated management report

General balance sheet development

At the close of 2003 the value of the total balance sheet had risen by 13% to EUR 26.4 billion.

After falling back in 2002, interbank activities increased significantly in 2003. On the liabilities side, amounts owing to credit institutions rose 53%, constituting the leading source of financing for the bank at the end of 2003. On the assets side, loans and advances to credit institutions were 16% higher than at the close of 2002. At the same time, investment in treasury and other short-term bills increased by 14%. These two items have a combined value of EUR 17 billion, or 65% of the balance sheet total. The bank was able to maintain a very comfortable cash position.

Participating interests, interests in associated undertakings and equity portfolio

The "Interests in associated undertakings" line increased by close to 20% in 2003. The acquisition of Theodoor Gilissen Bankiers was the main contributor to this growth. The bank also took part in capital increases at KBL France and Fumagalli Soldan.

The fall in the value of the equity portfolio was due to further sales of Sicav shares.

Holding and acquisition of own shares

KBL was required to make market purchases and sales of own shares (both ordinary and preference) in 2003 to meet market liquidity requirements. These shares were all acquired and sold at the price prevailing on the Luxembourg stock exchange.

Thus, at the close of 2003, our portfolio contained 26 ordinary shares and 34 preference shares — a total of 60 shares, representing 0.0001% of total ordinary shares and 0.0017% of total preference shares outstanding.

We hold these positions solely to respond to supply and demand conditions on the Luxembourg stock exchange and over the counter, with a view to ensuring adequate liquidity and facilitating the execution of client orders. These positions are therefore held on a very short-term basis only and are constantly fluctuating.

Change in deposits

On the liabilities side, amounts due to credit institutions were up sharply. This was largely due to the bank's use of "repurchase agreements". Amounts due to credit institutions now exceed the value of cash at banks shown on the assets side. However, given the high volume of treasury bills, the bank is still a net lender on the market. Amounts due to customers were slightly down, mainly due to a fall in deposits from institutional investors.

Increase in shareholders' equity

Overall, shareholders' equity and comparable outstandings before allocation of profit rose by EUR 323 million. To shore up basic equity capital, the bank placed a JPY 20 billion (EUR 148 million) hybrid issue on the institutional market in 2003. By virtue of its structure and the consent given by the CSSF, this instrument is treated as basic equity capital (Tier 1).

As at 31 December 2003, before allocation of profit, the value of non-consolidated shareholders' equity used to calculate the basic equity capital adequacy ratio was EUR 2.06 billion, 19% higher than at the end of 2002. The non-consolidated capital adequacy ratio also rose, edging up from 28.5% in 2002 to 33.9%. Return on equity (ROE) remained at the 2002 level, i.e. 16%.

Higher net interest income with decrease in net commissions

The reduction in interest and similar income was more than offset by the decrease in interest paid and other similar expenses. As a result, net interest income rose by 2.9%.

Net commission levels slipped by 14.5% relative to 2002, reflecting a tighter and more competitive market volume. The first months of the year were especially unfavourable due to the uncertainty weighing on the markets.

Sharp increase in income from securities

Income from securities was boosted by higher dividends received and the liquidation surplus from KB Ré produced by the Bank's decision to consolidate all of its reinsurance contracts under a single captive company, Renelux S.A.

Income from financial operations

The change in income from financial operations is by definition extremely volatile from one year to the next. The negative balance as at 31 December 2003 was due to lower actual gains than in 2002 and larger allocations to value corrections on investment portfolio bonds for countries undergoing euro convergence as part of their integration into the European Monetary Union.

Control of overheads and other operating expenses

The cost-cutting drive begun in 2001 continued in 2003. The measures taken have already enhanced the productivity of the bank's resources and will be continued in 2004. Personnel expenses were down 7.5%, for example, while other administrative expenses were reined in by 15.6%, partly due to lower IT outsourcing costs.

By controlling overheads and administrative costs, an acceptable ratio of these expenses to net banking revenue of 38% was maintained (versus 35% in 2002), despite the slight downturn in total revenue.

Prudent provisioning policy maintained

The bank has provided for all unrealised capital losses, relative to current market prices, on the shares in its portfolio. As for the loan portfolio, only a small amount of new provisions were needed. In a climate of weak economic conditions, financial and accounting scandals, and multiple downgrades of company ratings, this fact illustrates the quality of risk management at the bank and its historically prudent lending policy.

Reduction in taxes and exceptional expenses

The tax burden was somewhat lower in 2003, partly due to an increase in the contribution of dividends paid by subsidiaries, which are tax-exempt, to bank profits.

The bank continued to offer early retirement incentives in 2003 and recorded a new allocation to early retirement provisions, though for a lesser amount than in 2002, resulting in a decrease in exceptional expenses.

5.0% growth in net profit

Despite the poor economic conditions, total net profit was up by 5.0%, to EUR 180.0 million.

Annex 1 - Securities activities

On the bond markets, which are classic OTC markets, our know-how has historically been respected, making us not only the operator of choice for managing the internal flows generated by our private and institutional banking activities but also the counterparty of choice for our vast network of selected professional counterparties. The group's subsidiaries, which act directly on their domestic markets where there is added value, are placing more and more of their orders with the parent company's dealing room.

In this business, the assumption of risk, where applicable, is subject to predetermined limits and restricted to certain activities and products, which are duly documented by the Group Risk Management department. On principle, positions are mainly taken to support the group's "customer" business and are subject to monitoring by the Group Risk Management department.

On the equity markets, which are by their nature organised markets, our main function is to provide brokerage services. Our aim is to channel our customers' flows towards the organised stock markets, either directly or through approved brokers, as far as possible by automated means.

Our counterparties are duly authorised and selected on the basis of administrative and reporting performance criteria, amongst other factors. Brokerage fees are agreed with each counterparty in advance.

Orders above a certain size are handled, on the request of those making the orders, by a team of traders. In all share trading activities we adhere to a policy of continuous monitoring that aims to guarantee the most efficient order execution service possible.

Our approach to taking positions on our own behalf is a conservative one and we engage in this activity on an incidental basis only. Such activities are subject to strict rules and are monitored directly by the relevant dealing room managers and/or the group's general bank management team, to ensure compliance with the rules established by the Group Risk Management department. The department also reports on subsidiary positions to the management of the parent company.

Annex 2 - Activities exposed to interest rate risk

OFFSET ANNUAL EQUIVALENT RISK MEASURE, A GROUP-WIDE MEASUREMENT MODEL

First, the bank's balance sheet is divided up into financially representative positions. A sensitivity limit (or offset annual equivalent risk) is then assigned to each of these positions, which are tracked in real time by the dealing room and monitored by the Group Risk Management department.

The offset annual equivalent risk measure represents the annual equivalent, by volume, of all positions exposed to interest rate risk, once all expiries have been offset against each other and then consolidated. Sensitivity limits are calculated for each currency individually on the basis of any adverse 1% movement in the interest rate payable on that currency. The absolute values of these sensitivity limits are then added together to give a global sensitivity limit (all currencies) or offset annual equivalent risk.

Offset annual equivalent risk is used to measure the mismatch between open positions.

We have subsequently implemented an analysis model that enables us to offset and track both balance sheet and off balance sheet items for each activity individually. This analysis of interest rate risk and balance sheet margin enables us to linkthe account approach and the financial approach.

The Management Audit department prepares a monthly report on interest rate exposures for submission to the Executive Committee. This report is based on the analytical breakdown of interest rates, which is in turn based on average capital data from the centralised system, expressed, for each accounts item, as average capital calculated according to value date and interest rate exposure. It enables the bank to calculate interest margins for each "capital" activity and is also used to measure the performance of treasury activity.

The principle behind the model is that certain liability items may finance certain asset items and, conversely, that certain liability items may be invested in certain asset items, subject to regulatory constraints on linking and any additional restrictions resulting from internal strategic decisions. Any asset and liability items without a specific link of this kind are assigned to the Treasury pool for investing or refinancing. Effective interest rates are taken into account for non-zero rate assets and liabilities (e.g. Clients, Portfolios) and a market disposal rate applied for links affecting a group of zero rate items (e.g. shareholders' equity and fixed assets).

In addition to centralised internal flows, all interbank operations carried out by the Treasury department, including mismatched transactions, are assigned to the pool; this enables the bank to determine the net interest margin on treasury activity.

The report produced by the Management Audit department does not measure risks in terms of interest rate exposure but is used by the Group Risk Management department for reference in certain interest rate risk analyses, in particular the risk on the bank's securities portfolio.

The bank's dealing room and Group Risk Management department use an interest rate risk measurement system called Kondor+. This system incorporates all positions exposed to interest rate risk (assets, liabilities and off-balance sheet items) and covers both trading and non-trading balances.

MODIFIED OFFSET ANNUAL EQUIVALENT RISK MEASURE (ERAC-BIS)

The up-dated version of our offset annual equivalent risk measure, ERAC-bis, was implemented at the beginning of the year and is a statistical methodology used to estimate the loss resulting from an adverse movement in interest rates for a given time horizon and confidence threshold.

ERAC-bis has since been modified further, to incorporate an additional element based on the Sharpe ratio that factors in the current level of positive or negative net interest margin (this model is known internally as "modified ERAC-bis").

After a year of tests, the parameters have been revised in the light of experience and the final version of the model should be ready for use from 2004 onwards.

Annex 3 - Operational risk

DEFINITION

Operational risk is the risk of direct or indirect losses resulting from inadequate or deficient internal procedures, individuals, systems or external events.

GENERAL ORGANISATION

In accordance with IML (Luxembourg Monetary Institute) Circular 98/143, the bank's internal audit system establishes the following audit requirements:

- first-level daily audits by order executors,
- ongoing critical controls by persons overseeing order processing,
- management audits of all activities and functions falling under their direct responsibility,
- second-level controls by the Internal Audit department.

Top-quality, efficient internal audit systems that are constantly monitored by an independent internal audit team and a robust administrative and accounts structure supported by IT systems that are both physically and logically secure are key to minimising known operational risks.

The bank's general organisation structures are deemed adequate in this respect, for the following reasons:

- two members of its Executive Committee have been assigned overall responsibility for the bank's administrative and accounting organisation;
- the bank's organisational structures, line management and functional divisions ensure appropriate segregation of the various functions and the staff performing them;
- written procedures have been drawn up for all functions; the audit team's mission includes checking that areas audited are covered by procedures;
- all procedures can be consulted on the group's Intranet, ensuring that all employees have access;
- any process engaging the bank's responsibility and all related decisions are documented;
- order inputting follows a very strict procedure, involving at least two persons (one inputting data, the other authorising), and in some cases three, and is carried out as close as possible to the place where the order is taken;
- all transactions made on customer accounts are accounted for in real time in a new Client Financial Risk application enabling the bank to monitor risk and liquidity positions in parallel, both at account and global client level;
- the accounts department identifies and records transactions, justifies changes in accounts balances, prepares reports and keeps accounts ledgers;
- the bank's IT system is tailored to its requirements and complies with the provisions of IML Circular 96/126 in all of the following respects: hardware configuration, applications in use, physical and logical security, structure and procedures in place.

The bank has established a back-up site from which all central applications can be restarted, without loss of information, in the event of an incident affecting the operating centre.

The production and back-up computers are located at two sites several kilometres apart and are linked by fibre-optic cables running along two different routes, enabling real-time synchronisation. Thus, all data recorded on magnetic disks at the production site are simultaneously copied onto disks at the back-up site.

Similar infrastructures have been established for data stored on magnetic cassettes, some of which is essential to the smooth functioning of the recovery process.

The various network components are configured in such a way that all users of the bank's IT systems can switch rapidly to the back-up site. The procedure for effecting this switch is tested twice a year.

This IT back-up plan is an integral part of the BCP (Business Continuity Plan), described in section 3.2.5 of this report, which will have been fully implemented in the first quarter of 2004. The Plan consists of a structured series of provisions designed to ensure the bank can continue operating in the event of a disaster.

TRANSFER OF RISKS

Regulations in the process of being finalised – CSSF, CAD III and Basel II – and designed to establish a new capital adequacy regime for credit institutions provide, in the section on operational risk, for the use of insurance as a risk mitigator (i.e. risk impact reducer). In short, banks will in future be able take out insurance cover for certain operational risks to reduce the shareholders' equity that must be allocated to them.

The connection is, after all, logical, since traditionally insurable risks are broadly in line with the definition of operational risk. Integrating both areas in a single "Group Insurance and Operational Risk" unit shows the importance the bank accords to this complementarity.

Drawing a parallel between the two problems will enable the group to structure its approach based on the links that develop between insurance and operational risk. The resulting optimisation applies as much to risk analysis and assessment as to the financial benefits made possible by the regulations.

Generally, and from a structural viewpoint, when there are grounds to take out an insurance policy:

- the risk is transferred to the market and/or to a captive company, the key decision being the ratio of the premium to the proposed cover;
- cover may be either international, in which case the policy covers one or more specific risks for KBL and all its subsidiaries, or local, in which case only one group company is covered.

In its approach to insuring against risk, the bank makes an explicit distinction between low frequency, high severity losses and high frequency, low severity losses, both in systematic studies of risks that can be insured and transferred to captive insurance companies, and within the framework of its core methodology. The inevitable analytical synergies arising between insurance, operational risk and the business continuity plan echo this philosophy and contribute to the definition of our overall approach.

Finally, in 2003, we also initiated a multi-year plan to:

- strengthen the coherence of our cover at group level. This basically means optimising the match between our objective needs and existing cover by streamlining and enhancing the complementarity between the international programme and local policies. In this regard, a global gap analysis was carried out at each of the group's companies to establish an appropriate action plan;
- restructure our overall programme with the aim of optimising our budget and our level of cover in light of the difficulties in the insurance market. Accordingly, this included carrying out a study to define a suitable and flexible captive insurance policy and underwriting strategy along the triple lines of "cover quality / security / continuity".

METHODOLOGICAL ISSUES

The new minimum capital requirements entail paying close attention to operational risk analysis and assessment.

The Group Insurance and Operational Risk unit reports directly to the Group Risk Management department. It is charged with studying the impact that the most advanced models would have on capital adequacy and drawing up an economic comparison. It has also been charged with assessing the positive qualitative impact for our group of adopting such an approach.

The unit also provides overall policy coordination on this issue at group level. To this end, a detailed survey (OpRisk Survey) was conducted in 2003 to:

- establish the status of the group's companies in relation to regulatory developments;
- assess the effectiveness of intra-group co-ordination;
- analyse the structures already in place and assess their integration within the overall strategy;
- define targeted action plans that meet the group's objective needs.

Lastly, the unit is studying two advanced models in particular, seeking to find a balance between qualitative and quantitative approaches: scorecards, on the one hand, and the loss distribution approach, on the other.

Annex 4 - Credit risk

In its capacity as parent company, KBL seeks to optimise credit risk management by applying strictly predefined rules, listed below, across the whole group.

DECISION-MAKING PROCESS

All decisions relating to loans or advances are the responsibility of the Executive Committee, the Credit Committee or one of the other competent bodies designated under the delegation of powers agreed by the Executive Committee in accordance with criteria established in relation to operation type, amount, term, risk and guarantees. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of any conflict of interest. All decisions taken on the basis of a delegation of powers must also be reported to and approved by the senior body.

These principles are applicable at both the parent company and all group subsidiaries.

CONTROLS IN PLACE

The Bank has set in place several controls to optimise credit risk management at the time a credit decision is taken and a lending operation set in motion.

Thus, for each new loan proposal, a financial analysis of borrower risk is carried out by an independent company that examines the borrower's financial position with a view to assessing its credit quality, independently of any analysis provided by external rating agencies.

The parent company's Executive Committee has also taken several types of framework decision on lending transactions.

For example, all loan proposals must comply with the counterparty or country limits established by the Executive Committee, to avoid any excessive concentration of this respect. Sector concentration is also re-examined each time a new loan proposal is made. Concentrations are monitored at consolidated level, i.e. taking our subsidiaries' commitments into account.

The Executive Committee has also established an emerging market risk limit, along with specific thresholds for certain niche markets. These set the maximum lending levels authorised for these activities, which are only carried out by the parent company.

The Executive Committee has also established risk acceptance criteria to be used as benchmarks in decision making.

Finally, the parent company has ensured a separation of tasks between the bodies empowered to authorise the granting of loans, the departments responsible for contractual matters, the departments responsible for making funds available and booking loans and those in direct contact with the borrower. It should be noted in this respect that all new loan proposals pass through a middle office that independently examines the merits of the proposal and issues a recommendation and an opinion intended for the body charged with ruling on the request.

As regards the credit risk arising from the group's market operations, the parent company establishes unconfirmed lines of credit by counterparty, by product and by country, both for itself and for each subsidiary. These lines are managed at consolidated level and determined centrally. They are set by the Executive Committee or the relevant bodies empowered to do so under a delegation of powers granted by the Executive Committee. The lines are established on the basis of criteria that take into account both the quality and size (measured by shareholders' equity) of the counterparty and also the size of our group (measured by our consolidated shareholders' equity).

At the end of 2003, 90% of the unconfirmed lines of credit were opened with Western European banks, while 8% were opened in North America. Counterparties with an external rating of A or higher or "name-related" subsidiaries of such banks accounted for 95% of the lines.

RISK MONITORING

As part of the Bank's monitoring of outstanding credit risks, various measures have also been set in place to minimise the risk of portfolio deterioration.

These include the preparation of reports, at least once a year, to monitor the concentration of our risks by sector or by borrower.

Reports by type of activity (asset-based, SAS/FRN, CDS, securitisation, emerging markets) are also produced once a year, as is a report on problem loans, which is also used to determine what level of specific loan provisions may be required.

Finally, all at-risk borrowers are reviewed at least once annually based on their financial statements. If certain factors likely to increase the risk are noted, specific reviews may even be carried out more frequently. This is also the case for all interbank and country risks and unconfirmed lines of credit established in this context.

All these reports are prepared on a consolidated basis. They are passed up to parent company Credit Committee level and, in most cases, to the Executive Committee. A middle office, comprising the Financial Analysis department and Loan Management department among others, is responsible for the independent preparation of these reports.

The bank also has the following tools for the day-to-day monitoring of lending transactions on its own portfolio:

- an IT application for monitoring guarantees and loan repayment schedules,
- automatic daily monitoring of breaches of credit or overdraft limits and instances of insufficient cover for loans backed by securities, allowing for immediate detection of irregularities and consequent rapid implementation of appropriate corrective measures.
- automatic tracking of changes in the ratings of externally-rated borrowers.

The bank also has Global Exposure Monitoring (GEM) software, a centralisation tool for group-level unconfirmed interbank and country lines and the bank's credit risks. This tool also serves as a basis for the Risk Control Unit's daily monitoring of any excess on unconfirmed lines of credit.

PORTFOLIO COMPOSITION

To analyse the distribution of our credit risks, we examine the composition of the loan portfolios operated by the main group companies active in lending. The "consolidated" figures given below include the outstandings of KBL, KBL Bank Ireland, Brown Shipley, Merck Finck, Banco Urquijo and Theodoor Gilissen Bankiers and represent around 95% of the KBL group's total loan portfolio.

Loan activity has been deliberately reduced since 2000 and as at 31 December 2003, the value of the loan portfolio was just EUR 9.6 billion.

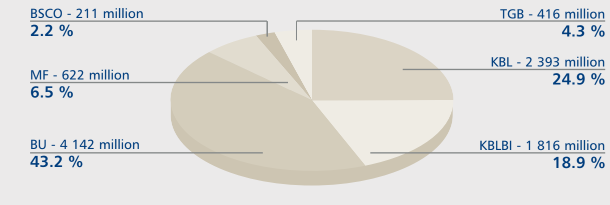
The other subsidiaries, namely Banque Continentale du Luxembourg, KBL France, KB Luxembourg (Monaco), Kreditbank (Suisse) and Fumagalli Soldan are excluded from the consolidation sphere, since either they do not actively lend (or not to a significant extent) or else the nature of their operations (mainly lending to private clients backed by securities portfolios) does not give rise to any significant risk of loss.

The credit commitments of KBL and KBLBI, mainly high-quality externally-rated liquid international loans, make up 43.8% of the consolidated portfolio.

The lending activities of our UK subsidiary Brown Shipley have been redefined and are now limited to certain types of operations and to loans accompanying private banking and corporate finance operations.

Merck Finck has also been voluntarily scaling down its lending activities since 2000, and now prioritises loans

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY GROUP COMPANY



accompanying private banking activities. Its lending policy and decision-making procedures have also been reviewed. As a result, Merck Finck's loan portfolio has contracted by 61% since the end of 2000 and now accounts for only 6.5% of the consolidated portfolio.

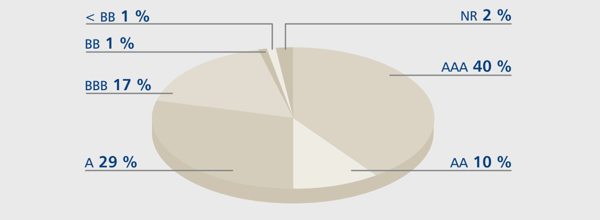
Banco Urquijo still has a substantial loan portfolio, focused on private customers for loans accompanying private banking and consultancy activities and on high-quality long-standing corporate customers in the case of most short-term loans. Banco Urquijo's loan portfolio is monitored in close cooperation with KBL. At the end of 2003, Banco Urquijo's lending commitments accounted for 43.2% of the consolidated loan portfolio.

The lending activities of Theodoor Gilissen are closely related to its private banking business in the sense that loans are granted primarily to its asset management customers. The Theodoor Gilissen portfolio consists of Lombard loans granted on the basis of diversified portfolios whose collateral value covers outstanding amounts and of mortgage loans granted on the basis of an amount less than 75% of the foreclosure value of property assets; most of which are individual homes.

1. Breakdown by rating

"Investment grade" securities still make up 96% of KBL's and KBLBI's international securities portfolio, the same percentage as in 2001, despite the many ratings downgrades that have taken place over the past year. Against an international backdrop that is still particularly difficult, this demonstrates the quality of our portfolio and its very limited exposure to emerging economies and markets.

BREAKDOWN BY RATING



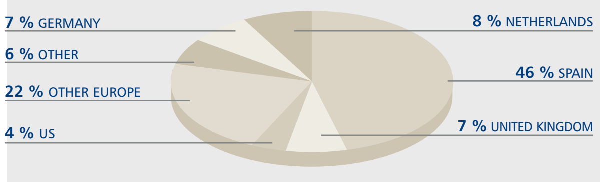
2. Breakdown by region

Western Europe accounts for 89% of the portfolio, the US for 4%, and other regions for just 7%.

KBL and KBLBI mainly lend to borrowers within the European Union and the rest of Western Europe. US borrowers accounted for 12% of overall loans outstanding at the end of 2003.

Banco Urquijo, Merck Finck, Brown Shipley and Theodoor Gilissen lend almost exclusively on their domestic markets of Spain, Germany, the UK and the Netherlands respectively.

BREAKDOWN BY REGION



3. Breakdown by sector

A large proportion of the mortgage loan portfolio consists of securities backed by first lien mortgages, mainly residential, all senior tranche, rated AAA or AA+. The portfolio is well diversified and spread over a large number of exclusively European Union countries (Belgium, Netherlands, UK, France, Italy, Spain and Portugal). The Property sector also includes the property-related loans of our Spanish, German and Dutch subsidiaries.

No sectors, other than property, account for more than 10% of the consolidated portfolio.

After property, food/textiles/restaurants&catering and non-banking financial institutions have the heaviest weightings. These two sectors were slightly down compared with 2002, in terms of both absolute and relative values.

The "unassigned" percentage rose in relation in 2002 following integration of Theodoor Gilissen Bankiers' loans.

CONSOLIDATED LOAN PORTFOLIO - BREAKDOWN BY SECTOR AS AT 31/12/2003

PROPERTY	17 %
FOOD - TEXTILES - RESTAURANT & CATERING	10 %
NON-BANKING FINANCIAL INSTITUTIONS	9 %
BANKS	7 %
SUPRANATIONAL – SOVEREIGN – MUNICIPALITIES	7 %
BUILDING MATERIALS AND CONSTRUCTION	6 %
MECHANICAL - ELECTRICAL - ELECTRONIC	3 %
TELECOMMUNICATIONS – MEDIA	4 %
ENERGY AND WATER	4 %
LEISURE AND OTHER SERVICES	3 %
AUTOMOTIVE	3 %
CHEMICALS	2 %
OTHER	6 %
UNASSIGNED	19 %

Specific loan provisions

Below we list specific provisions established in respect of the consolidated loan portfolio as at 31 December 2003, and the changes in these provisions over the course of 2003.

as at 31/12/2003 (in EUR thousand)	GROSS LOANS	SPECIFIC LOAN PROVISIONS	NET LOANS
More than 90 days overdue	120 964	75 579	45 385
Restructured country loans (inherited from past)	59 758	39 326	20 432
Other doubtful debts	113 980	53 050	60 930
All doubtful and non-performing loans and advances	**294 702**	**167 955**	**126 747**

	PERCENTAGE LOSS ON CONSOLIDATED LOAN PORTFOLIO
FY 2003	0.21 %
Average 1999-2003	0.16 %

SPECIFIC LOAN PROVISIONS (in EUR million)

Total provisions at start of period	183.94
Transfers from income statement	
Increase in provisions	+38.49
Reduction in provisions	-18.05
Applications	-22.72
Adjustments for exchange rate variations	-13.71
Total provisions at end of period	167.95

ALLOCATION OF PROFIT AND PROPOSED DIVIDEND

in EUR	
After the constitution of provisions and necessary depreciation and amortisation, profit for the financial year ending 31 December 2003 was:	
	180 004 149.55
Balance carried forward	666 054.38
Profit to be distributed	180 670 203.93
Pursuant to legal and statutory provisions, we propose to allocate this profit as follows:	
Statutory reserves	0
Dividend	118 546 854.87
Board of Directors	1 640 499.99
Reserve for imputed wealth tax	21 930 500.00
Voluntary reserves	38 000 000.00
Carried forward	552 349.07
	180 670 203.93

Subject to approval of this allocation, and on the basis of a gross dividend of EUR 5.8315 per share, a net dividend of EUR 4.6652 will be paid at our offices from 29 April 2004 upon production of Coupon No. 7 on the 18 353 387 ordinary shares and Coupon No. 6 on the 1 975 320 non-voting preference shares outstanding as at 31 December 2003..

COMPOSITION OF THE BOARD OF DIRECTORS

Mr Edmond Muller's mandate as Director expires at the Ordinary General Meeting of 2004. It is proposed that this mandate be renewed for a further period of six years.

In addition, Mrs Catherine Guyon-Sabbe has relinquished her mandate, having communicated her decision to the President of the Board of Directors in writing on 12 March 2004.

The Shareholders thank her for the valuable contribution she has made during her time on the Board of Directors.

Luxembourg, 16 March 2004

The Board of Directors

AUDITORS' REPORT ON THE CONSOLIDATED BALANCE SHEET

UNRESERVED CERTIFICATION OF THE AUDITOR

To the Board of Directors of Kredietbank S.A. Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached consolidated accounts of Kredietbank S.A. Luxembourgeoise for the year ended 31 December 2003 and have read the related management report.

The consolidated accounts and management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated accounts based on our audit and to verify the consistency of the management report with the consolidated accounts.

We conducted our audit in accordance with international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts. It also includes assessing the accounting principles used and significant estimates made by the Board of Directors in preparing the consolidated accounts, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the assets, liabilities and financial position of Kredietbank S.A. Luxembourgeoise as at 31 December 2003 and the results of its operations for the year then ended.

The management report is consistent with the consolidated accounts.

DELOITTE S.A.
Auditor

Stéphane Césari
Partner

17 March 2004

AUDITORS' REPORT ON THE NON-CONSOLIDATED BALANCE SHEET

UNRESERVED CERTIFICATION OF THE AUDITOR

To the Board of Directors of Kredietbank S.A. Luxembourgeoise

Following our appointment by the Board of Directors, we have audited the attached annual accounts of Kredietbank S.A. Luxembourgeoise for the year ended 31 December 2003 and have read the related management report.

The annual accounts and management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to verify the consistency of the management report with the annual accounts.

We conducted our audit in accordance with international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made by the Board of Directors in preparing the annual accounts, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the assets, liabilities and financial position of Kredietbank S.A. Luxembourgeoise as at 31 December 2003 and the results of its operations for the year then ended.

The management report is consistent with the annual accounts.

DELOITTE S.A.
Auditor

Stéphane Césari
Partner

17 March 2004

CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2003	2002
Cash, balances with central banks and post office banks	8, 28, 29	776 408 044	307 071 204
Treasury bills and other bills eligible for refinancing with the Central Bank	8, 9, 10, 12, 23, 28, 29	6 646 041 081	6 069 468 461
a) Treasury bills and similar securities		*6 640 125 309*	*6 060 333 906*
b) Other bills eligible for refinancing with the Central Bank		*5 915 772*	*9 134 555*
Loans and advances to credit institutions	8, 15, 28, 29	11 206 251 546	9 512 440 259
a) Repayable on demand		*1 579 768 780*	*2 253 139 975*
b) Other loans and advances		*9 626 482 766*	*7 259 300 284*
Loans and advances to customers	8, 15, 28, 29, 36	5 047 099 056	4 741 104 587
Bonds and other fixed-income securities	8, 9, 10, 12, 15, 23, 28, 29	7 338 842 533	7 414 575 079
a) Issued by public bodies		*4 120 573 432*	*4 129 829 544*
b) Issued by other borrowers		*3 218 269 101*	*3 284 745 535*
Equities and other variable-yield securities	8, 9, 28, 29	282 355 350	433 378 639
Participating interests	9, 11, 12	63 408 160	88 254 693
Shares in associated undertakings	9, 11, 12, 34	42 253 070	45 826 304
Intangible assets	12	4 154 087	7 030 447
Tangible assets	12, 13	343 866 431	339 777 831
Own shares	21	6 297	77 408
Other assets	14, 23	350 807 338	329 043 745
Prepayments and accrued income	10	687 675 680	722 589 564
TOTAL ASSETS	**7**	**32 789 168 673**	**30 010 638 221**

The notes follow.

LIABILITIES	NOTES	2003	2002
Amounts owed to credit institutions	8, 15, 28	12 698 756 609	8 904 021 450
a) Repayable on demand		*612 369 830*	*980 304 562*
b) With agreed maturity dates or periods of notice		*12 086 386 779*	*7 923 716 888*
Amounts owed to customers	8, 15, 28	15 925 565 537	16 398 549 799
a) Saving deposits		*866 116 209*	*843 818 179*
b) Other debts		*15 059 449 328*	*15 554 731 620*
ba) Repayable on demand		*3 946 874 946*	*3 684 674 868*
bb) With agreed maturity dates or periods of notice		*11 112 574 382*	*11 870 056 752*
Debts evidenced by certificates	8, 16	373 299 369	621 388 179
Bonds and debentures in circulation		*373 299 369*	*621 147 179*
Other debts evidenced by securities		*-*	*241 000*
Other liabilities	17	543 428 568	678 267 098
Accruals and deferred income	10	641 132 041	897 097 409
Provisions for liabilities and charges		357 260 268	357 917 774
a) provisions for pensions and similar obligations		*38 114 674*	*28 964 307*
b) Provisions for taxes		*84 905 796*	*83 781 943*
c) Other provisions	*38, 39, 40*	*234 239 798*	*245 171 524*
Subordinated liabilities	18	1 011 426 379	1 052 742 335
Special items with a reserve quota	19	8 650 439	9 071 178
Fund for general banking risks		125 111 959	126 639 634
Hybrid capital instruments	20	148 093 299	-
Subscribed capital	21	188 987 524	188 987 524
Share premium account		354 569 112	354 569 112
Reserves	22	196 692 437	218 702 386
Minority interests		21 080 414	19 701 922
Profit brought forward	22	666 054	376 341
PROFIT FOR THE FINANCIAL YEAR		194 448 664	182 606 080
a) Group share		*193 115 307*	*180 901 833*
b) Minority interest share		*1 333 357*	*1 704 247*
TOTAL LIABILITIES	**7**	**32 789 168 673**	**30 010 638 221**

OFF-BALANCE SHEET			
Contingent liabilities	24, 28, 29	737 962 548	987 570 341
Of which: guarantees and assets pledged as collateral security		*455 760 290*	*620 948 777*
Commitments	25, 28, 29	2 821 934 047	2 646 146 840
Fiduciary operations	26	1 217 592 137	1 268 186 528

The notes follow.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in EUR, as at 31 December

	NOTES	2003	2002
Interest receivable and similar income		2 064 955 934	2 450 852 043
Of which: that arising from fixed-income securities		*669 192 928*	*641 833 703*
Interest and similar charges	18	(1 753 442 578)	(2 129 500 438)
Net interest	10	311 513 356	321 351 605
Income from securities		71 323 430	65 418 741
a) Income from shares and other variable-yield securities		*5 084 540*	*43 955 479*
b) Income from participating interests		*2 884 649*	*5 225 655*
c) Income from shares in associated undertakings		*63 354 241*	*16 237 607*
Commissions receivable		378 426 819	406 588 653
Commissions payable		(61 194 617)	(72 075 397)
Net commissions		317 232 202	334 513 256
Profit on financial operations		(5 536 636)	64 181 362
Other operating income	31	127 620 275	128 104 548
General administrative expenses		(467 829 294)	(517 018 424)
a) Staff costs	*35, 36*	*(298 544 742)*	*(317 003 889)*
Of which: - wages and salaries		*(237 609 426)*	*(251 696 127)*
- social security costs		*(49 447 169)*	*(53 845 024)*
Of which: Social security costs relating to pensions		*(29 688 873)*	*(31 768 622)*
b) Other administrative expenses		*(169 284 552)*	*(200 014 535)*
Value adjustments in respect of tangible and intangible assets	32	(41 297 702)	(80 890 422)
Other operating charges	33	(24 268 703)	(13 038 458)
Value adjustments and re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		(11 254 097)	15 788 248

The notes follow.

	NOTES	2003	2002
Value adjustments and re-adjustments in respect of transferable securities held as financial assets, participating interests and shares in associated undertakings		2 345 854	(31 514 772)
Income from the writing-back of "special items with a reserve quota"	19	420 739	8 604 083
Income from the writing-back of amounts in the fund for general banking risks		879 394	476 334
Tax on profit from ordinary activities	37	(52 404 608)	(18 164 242)
PROFIT ON ORDINARY ACTIVITIES, AFTER TAX		**228 744 210**	**277 811 859**
Exceptional charges	38	(24 535 503)	(82 706 767)
Other taxes not shown under the preceding items		(9 760 043)	(12 499 012)
PROFIT FOR THE FINANCIAL YEAR		**194 448 664**	**182 606 080**
a) Group share		*193 115 307*	*180 901 833*
b) Minority interest share		*1 333 357*	*1 704 247*

The notes follow.

note 1 General

1.1 Incorporation and management of the Bank

Kredietbank S.A. Luxembourgeoise (hereinafter "the Bank") was incorporated in Luxembourg on 23 May 1949 as a public limited company *(société anonyme)*.

The Bank belongs to the ALMANIJ Group, whose parent company is ALMANIJ N.V., a company governed by Belgian law, having its registered office at Schoenmarkt 33, B-2000 Antwerp.

The consolidated accounts of the ALMANIJ Group are available at the registered office of Almanij N.V.

The commercial policy and the valuation rules of the Bank are, unless subject to Luxembourg laws and regulations, determined and monitored by the Board of Directors.

1.2 Nature of activities

The corporate purpose of the Bank is to carry out all banking and credit activities.

In addition, the Bank is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main corporate purpose, either directly or through shareholding, or in any other manner, these provisions to be understood in the widest manner possible.

The Bank may carry out any activity which contributes in any way whatsoever to the achievement of its corporate purpose.

As a member of the ALMANIJ Group, the Bank belongs to an international network of associated companies, subsidiaries, branches and representative offices present in the main industrialised countries and international financial centres.

1.3 Consolidated accounts

The financial year corresponds to the calendar year.

The Bank draws up its consolidated accounts in euros (EUR), which is the currency of its equity capital.

note 2 Main accounting methods

The consolidated accounts of the Bank have been prepared in conformity with the law as well as with the accounting principles that are generally accepted in the banking sector in the Grand Duchy of Luxembourg.

The main accounting methods which have been applied for the consolidated accounts correspond generally to those applied for the preparation of the company's annual accounts and are the following:

This year the Bank made two changes to its accounting methods detailed at point 2.1. "Conversion of items in foreign currencies" and 2.8 "Trading book".

These changes in the accounting methods were made in the framework of the gradual convergence towards reporting standards based on the future introduction of IFRS norms.

2.1 Conversion of items in foreign currencies

The Bank maintains a multi-currency accounting system under which all transactions are registered in the original foreign currency on the day on which the contract is concluded.

In preparing the consolidated accounts, assets and liabilities in foreign currencies are converted into EUR at the exchange rate applicable on the date of the balance sheet; differences resulting from such conversions are recorded in the profit and loss account.

Since 2003 and in anticipation of the introduction of the IFRS norms, income and expenses expressed in foreign currencies have been entered in their respective currencies and periodically converted at the average monthly rate. In previous years, the rates of exchange used were those applicable on the date of the conversion. This change in the accounting methods did not have a significant effect on the consolidated profit and loss account as at 31 December 2003.

On each closing of the balance sheet the Bank revalues the forward and spot positions resulting from outright forward contracts and from exchange swaps aiming at hedging.

In this case, all the latent results, including unrealised capital gains, of forward exchange transactions are entered in the profit and loss account.

Unhedged forward exchange transactions are individually valued on the basis of the exchange rate applicable at the date of the balance sheet. Capital gains are not taken into account while a provision is made for losses in the balance sheet as a liability under "Provisions for liabilities and charges: other provisions".

2.2 Financial instruments

Any commitments of the Bank resulting from financial instruments, such as interest rate swaps, forward rate agreements, financial futures and options are recorded at the date of the transaction in the off-balance sheet items.

When the balance sheet is drawn up, a provision is taken for unrealised capital losses recorded at the date of the individual valuation, at market rates, for transactions which have not yet been completed. This provision is booked as a liability under "Provisions for liabilities and charges: other provisions". Unrealised capital gains are not taken into account.

2.3 Value adjustments and specific provisions for bad and irrecoverable debts

The Bank's policy is to effect value adjustments and to constitute specific provisions in respect of bad and irrecoverable debts. They are determined with prudence by the Board of Directors.

The value adjustments are deducted from the corresponding assets items while the provisions relating to off-balance sheet items are booked as liabilities under "Provisions for liabilities and charges: other provisions".

2.4 Standard provision for assets at risk

In accordance with the provisions of Luxembourg tax legislation, the Bank's policy is to set up a standard provision for contingent liabilities as defined in the prudential regulations for the banking sector. The object of this provision is to cover liabilities which are expected but not identified when the annual accounts are drawn up.

In line with the instructions issued on 16 December 1997 by the Head of the Tax Office, the maximum level of the provision, which is tax exempt, is 1.25% of assets at risk.

The standard provision for assets at risk is allocated pro rata to the items on which calculation of the provision is based between:

- a value adjustment, which is deducted from the asset items comprising the assets at risk, and
- a provision for accrued liabilities, attributable to the credit risk on off-balance sheet items, foreign exchange and market risks, which is booked as a balance-sheet liability under the item: "Provisions for liabilities and charges: other provisions".

2.5 Fund for general banking risks

In accordance with Article 63 of the law on the annual accounts of banks, the Bank may constitute a fund to cover general banking risks. This fund is recorded separately on the liabilities side of the balance sheet. Transfers into the fund for general banking risks are not tax deductible.

2.6 Bills

Treasury bills are recorded in the balance sheet at their acquisition cost, plus accrued interest not yet due, calculated on a discount basis.

2.7 Transferable securities

Securities are registered in the balance sheet at their acquisition cost. Where appropriate, the acquisition cost is increased by any accrued interest not yet due for securities issued on a discount basis.

The Bank values its portfolio on the basis of weighted average prices.

Where appropriate, market risk and debtor risk are taken into account.

Value adjustments are deducted from the securities to which they relate. No account is taken of capital gains unless this affects the fixed-income securities in the trading book.

2.8 Bonds and other fixed-income securities

For the purposes of valuation, the portfolio of fixed-income securities is divided into three categories:

- securities included in the financial assets portfolio, to be used for the long-term requirements of the Bank,
- those included in the trading book, acquired with a view to selling them in the short term,
- those included in the investment portfolio, i.e. securities which do not fall into either of the two preceding categories.

The fixed income securities are valued as follows:

Financial assets

Financial assets are accounted for at the acquisition value in so far as they comply with the conditions of eligibility set by the legislation governing bank accounts and current banking regulations. Assets which do not meet these conditions are valued at "lower of cost or market".

When the acquisition price of fixed-income securities considered as financial assets is greater than the redemption price, the difference may be directly taken into account in the profit and loss account through the item accruals and deferred income on the liabilities side of the balance sheet, up to a maximum not exceeding the lesser of the following two amounts: 10% of the profit for the year or 10% of the difference between interest receivable and similar income and interest payable and similar charges.

Beyond this authorised maximum amount, the Bank has charged the depreciation to the income statement *pro rata temporis* via the accruals and deferred income on the liabilities side.

Where the acquisition price of fixed-income securities considered as financial assets is lower than the redemption value, the discount is taken into the income statement *pro rata temporis* via the prepayments and accrued income on the assets side.

Investment portfolio

Fixed-income securities maintained in the trading book and the investment portfolio are valued at "lower of cost or market".

Trading book

Since 2003 and in anticipation of the introduction of the IFRS norms, fixed-income securities in the trading book have been valued at "mark-to-market". In previous years these securities were valued at "lower of cost or market". This change in the accounting methods did not have a significant effect on the consolidated profit and loss account as at 31 December 2003.

2.9 Equities and other variable-yield securities

Equities and other variable-yield securities are valued at "lower of cost or market".

2.10 Participating interests and shares in associated undertakings

Participating interests and shares in associated undertakings are valued at "lower of cost or market".

2.11 Differences resulting from the first consolidation

The differences resulting from the first consolidation correspond to the difference between the cost of the parent company's holding in the consolidated subsidiaries and the share in the equity capital of these undertakings at the date of the acquisition of the holding.

Given that the Bank has adopted a strategy of long-term expansion based on a policy of significant acquisitions leading to the repetition of the positive differences resulting from the first consolidation, these differences resulting from the first consolidation are not entered as redeemable assets, but are directly deducted from equity, pursuant to Article 100(2) of the law on the accounts of banks.

2.12 "Beibehaltungsprinzip"

The Bank's policy is to maintain the value adjustments previously constituted on certain assets items, but which no longer correspond to a loss following an increase in the estimated value of assets concerned, pursuant to Articles 56(2)(f) and 58(2)(e) of the law on the annual accounts of banks.

2.13 Tangible assets

Tangible assets are booked at acquisition cost.

The value of tangible assets which have a limited time use is reduced by value adjustments calculated in such a manner as to depreciate the assets over the period of use, estimated from when they enter into service.

2.14 Special items with a reserve quota

Special items with a reserve quota include amounts likely to be exempt from tax. The exemption concerns, in particular, capital gains made pursuant to Articles 53, 54 and 54(a) of the law on income tax.

2.15 Taxes

Tax charges are assessed at the end of each fiscal year. The total balance of tax payable, after prepayments have been taken into account, is booked as a liability under "Provisions for liabilities and charges: provisions for taxation".

Since 2002, the group has entered deferred tax credits and debits identified on the main temporal differences between the assets and liabilities valued on the basis of fiscal and accounting regulations for consolidated companies. Deferred taxes on assets relating to deferrable fiscal losses are also taken into account, if their recoverability may be reasonably assured on the basis of budgetary provisions prudently made by the Bank.

Deferred taxes on liabilities are listed under the item "Other liabilities", while deferred taxes on assets come under the item "Other assets" The variation in deferred taxes on assets and liabilities from one period to another is entered in the consolidated profit and loss account under the item "Tax on profit from ordinary activities".

note 3 | Methods of consolidation

Only the banking and financial subsidiaries (including auxulairy banking service companies) are consolidated.

The methods of consolidation used are the following:

- complete integration for companies in which the group holds at least 50% of the capital either directly or indirectly,
- proportional integration for companies jointly controlled with a limited number of third parties.

note 4 | Scope of consolidation

Company	Country	Percentage held as at 31.12.2003	Percentage held as at 31.12.2002	Date taken into consideration
Parent company:				
Kredietbank S.A. Luxembourgeoise	Luxembourg			31 December
Main subsidiaries:				
Brown, Shipley & Co. Ltd and subsidiaries	Great Britain	100.00	100.00	31 December
Theodoor Gilissen Bankiers N.V. and subsidiaries	Netherlands	100.00	-	31 December
Banco Urquijo S.A. and subsidiaries	Spain	89.68	89.68	31 December
Kredietbank Luxembourg Beteiligungs A.G.	Germany	100.00	100.00	31 December
Merck Finck & Co and subsidiaries	Germany	100.00	100.00	31 December
Kredietbank (Suisse) S.A. and subsidiaries	Switzerland	99.99	99.99	31 December
KB Luxembourg (Monaco) S.A.	Monaco	100.00	100.00	31 December
KBL France S.A. and subsidiaries	France	100.00	100.00	31 December
Fidef Ingénierie Patrimoniale S.A.	France	99.97	99.95	31 December
Fumagalli Soldan SIM spa	Italy	80.00	80.00	31 December
Banque Continentale du Luxembourg S.A.	Luxembourg	100.00	100.00	31 December
KBL Bank Ireland	Ireland	100.00	100.00	31 December
Kredietrust Luxembourg S.A. (KTL)	Luxembourg	100.00	100.00	31 December
KB Lux Immo S.A. and subsidiaries	Luxembourg	99.83	100.00	31 December
Financière et Immobilière S.A.	Luxembourg	100.00	100.00	31 December
Kredietbank Informatique G.I.E.	Luxembourg	100.00	100.00	31 December
Gecalux SARL	Luxembourg	50.00	33.33	31 December

The companies above are consolidated according to the global integration method with the exception of Gecalux SARL, which is consolidated according to the method of proportional integration.

The annual and/or consolidated accounts of the above companies are audited and approved by external auditors.

The financial statements taken into consideration in the consolidated accounts are those drawn up on the dates of the closing of accounts mentioned above.

The main movements affecting the scope during the year under review are as follows:

In Switzerland

In October 2003, Kredietbank (Suisse) S.A., Genève, absorbed its subsidiary BLP Banque de Portefeuilles, owned 100%.

In France

KBL France continued the process of simplifying its structure by liquidating or giving up certain subsidiaries. Further, at the beginning of December 2003, the Fidef Ingénierie Patrimoniale group was ceded to KBL.

In Great Britain

Like KBL France, Brown, Shipley & Co Ltd has continued the process of simplifying its structure by liquidating or giving up certain subsidiaries.

In Luxembourg

KBL Founder S.A. was liquidated during 2003.

2003 also saw the following acquisitions:

In the Netherlands

The group Theodoor Gilissen Bankiers N.V., located in Amsterdam, was acquired by KBL in November 2003 and included in the scope of consolidation on 31 December 2003 for the first time.

In Luxembourg

Following the taking of a complementary holding in Gecalux SARL in September 2003, the percentage held by KBL rose to 50% and Gecalux SARL was therefore consoldiated for the first time in 2003.

The Bank has other holdings in excess of 20% in the capital of certain companies. These companies have, however, not been consolidated, either because they are not large enough or because the type of their activities is such that the consolidation of their financial situation would be inappropriate or likely to lead to misinterpretation (see note 34).

Both these holdings and those inferior to 20% are included in the consolidated accounts on the asset side at their acquisition price from which are deducted any value adjustments for any depreciation resulting from their valuation.

note 5 | Adjustments and eliminations

The necessary adjustments and eliminations have been made to the accounts of the consolidated undertakings to:

- present the accounts in a uniform manner,
- eliminate reciprocal balances,
- eliminate income and costs resulting from intra-group transactions in so far as they are identifiable and have a significant effect on the consolidated accounts.

note 6 Conversion principles used for the consolidation - cumulative conversion adjustment

The Bank has adopted the following method for converting the annual accounts of the consolidated companies drawn up in foreign currencies into EUR:

- the assets and liabilities are converted at the exchange rates applicable on the date of the balance sheet,
- the profit and loss accounts are converted at the average end-of-month exchange rates,
- the resulting cumulative conversion adjustment is not included in the calculation of profit for the financial year but forms an integral part of the "Non-payable".

note 7 Assets and liabilities in foreign currencies

As at 31 December 2003, the total amount of assets denominated in foreign currencies (ex EUR) converted into EUR was EUR 10 852 million (2002: EUR 9 955 million) ; the total amount of liabilities (ex EUR) was EUR 8 536 million (2002: EUR 9 572 million).

note 8 Breakdown of assets and liabilities by residual value

The asset and liability items are presented in the following tables on the basis of whether they belong to the trading book or not, pursuant to the regulations in force on the definition of equity ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector and as defined below.

The trading book comprises:

- own positions, either long or short, in:
  - money market instruments,
  - fixed-income securities,
  - variable-yield securities including shares in undertakings for collective investment,
  - raw materials,
  - derivatives,

  when they are taken or held with the intention of:

  - balancing them in the short term, or
  - profiting in the short term from real and/or discounted spreads between their purchase and sale prices, or
  - profiting in the short term from other variations in price or interest rates,

- positions resulting from simultaneous purchases and sales carried out on own account,

- positions linked to underwriting transferable securities or money market instruments on a firm commitment,

- any other position taken or held to cover other positions in the trading book.

Non-trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2003.

EUR million	up to 3 months	3 months to 1 year	1 to 5 years	more than 5 years or indefinite period	total 2003	total 2002
Asset item						
Cash, balances with central banks and post office banks	776	-	-	-	776	307
Treasury bills and other bills eligible for refinancing with the Central Bank	897	3 180	2 466	-	6 543	5 744
Loans and advances to credit institutions	4 777	1 691	18	114	6 599	7 876
Payable on demand	*1 580*	-	-	-	*1 580*	*2 253*
With agreed maturity or periods of notice	*3 197*	*1 691*	*18*	*114*	*5 019*	*5 622*
Loans and advances to customers	1 536	1 156	549	809	4 050	4 209
Bonds and other fixed-income securities	729	1 652	3 669	1 138	7 187	7 227
Public issuers	*403*	*1 144*	*1 977*	*496*	*4 019*	*4 016*
Other issuers	*326*	*508*	*1 692*	*642*	*3 168*	*3 211*
Equities and other variable-yield securities	-	-	-	171	171	324
Liability item						
Amounts owed to credit institutions	10 287	1 528	228	15	12 058	8 904
Payable on demand	*612*	-	-	-	*612*	*980*
With agreed maturity or periods of notice	*9 675*	*1 528*	*228*	*15*	*11 446*	*7 924*
Amounts owed to customers	11 180	2 229	102	531	14 042	14 576
Savings deposits	*859*	-	*1*	*6*	*866*	*844*
Others repayable on demand	*3 947*	-	-	-	*3 947*	*3685*
With agreed maturity dates or periods of notice	*6 373*	*2 229*	*101*	*525*	*9 229*	*10 048*
Debts evidenced by certificates	34	211	127	2	373	621

The amounts are given net of standard provisions.
The additions are based on the exact amounts and not amounts rounded up.
The same applies to the tables following.

Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2003.

EUR million	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year
	UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS OR INDETERMINATE		TOTAL 2003		TOTAL 2002	
Asset item												
Treasury bills and other bills eligible for refinancing with the Central Bank	76	36	27	112	-	7	-	-	103	154	325	314
Loans and advances to credit institutions (*)	4 526	2 568	81	94	-	-	-	-	4 607	2 663	1 637	1 849
Loans and advances to customers (*)	995	776	-	-	2	2	-	-	997	777	532	561
Bonds and other fixed-income securities	36	37	3	19	107	59	6	48	151	162	187	339
Equities and other variable-yield securities	-	-	-	-	-	-	111	114	111	114	109	68
Liability item												
Amounts owed to credit institutions (*)	633	622	4	1	-	-	3	1	640	623	-	-
Amounts owed to customers (*)	1 882	1 717	1	4	-	-	1	-	1 884	1 721	1822	1948

The fair value at the end of the financial year on equities in the trading book does not differ significantly (variation of around 1%) from the net accounting value.

(*) The loans and advances comprise securities lending operations and repo and reverse repo transactions.

note 9 | Transferable securities

Securities entered under the items "Treasury bills and other bills eligible for refinancing with the Central Bank", "Bonds and other fixed-income securities", "Equities and other variable-yield securities", "Participating interests" and "Shares in associated undertakings" were valued as follows as at 31 December 2003 (2002):

EUR million	LISTED SECURITIES	NON-LISTED SECURITIES	TOTAL
1. Treasury bills, bonds and other fixed-income securities	13 636 (13 295)	349 (188)	13 985 (13 484)
2. Equities and other variable-yield securities	219 (238)	64 (195)	282 (433)
3. Participating interests	39 (39)	24 (50)	63 (88)
4. Shares in associated undertakings	23 (22)	19 (24)	42 (46)

The amount of value adjustments on transferable securities held under the "Beibehaltungsprinzip" (see note 2.12) as financial assets and current assets amounted as at 31 December 2003 to EUR 5 million (2002: EUR 5 million) and to EUR 18 million (2002: EUR 9 million) respectively.

note 10 | Treasury bills, bonds and other fixed-income securities

As at 31 December 2003 securities entered under the item "Treasury bills and other bills eligible for refinancing with the Central Bank" and "Bonds and other fixed-income securities" could be broken down as follows:

EUR million	2003	2002
Financial assets	7 147	4 642
Other fixed-income securities	6 838	8 842
	13 985	13 484

Financial assets consist of securities which, pursuant to Article 56 of the law on the annual accounts of banks, are intended to meet the long-term requirements of the Bank (see note 2.8).

The amount of fixed-income securities entered under the item maturing in 2004 is EUR 6 599 million (2002: EUR 5 668 million for those maturing in 2003).

Cumulative depreciation since the acquisition date of premiums on bonds and other fixed income securities amounted as at 31 December 2003 to EUR 0.02 million (2002: EUR 3 million) for premiums taken directly into the income statement and to EUR 112 million (2002: EUR 112 million) for the premiums taken on a pro rata basis, of which EUR 94 million (2002: EUR 72 million) relating to transferable fixed-income securities having the character of financial assets.

The pro rata amount of disagios on bonds and other fixed-income securities held as financial assets rose from EUR 3 million as at 31 December 2002 to EUR 13 million as at 31 December 2003.

note 11

Participating interests and shares in associated undertakings in other credit institutions

EUR million	2003	2002
- Participating interests in credit institutions	21	21
- Shares in associated undertakings which are credit institutions	-	-

note 12

Changes in fixed assets

EUR million	ACQUISITION VALUE AS AT 01.01.2003	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2003	CUMULATIVE VALUE ADJ. AS AT 31.12.2003(*)	NET VALUE AS AT 31.12.2003
1. Financial assets	4 888	-188	4 095	1 450	7 345	113	7 231
- *Participating interests*	*120*	*-3*	*15*	*34*	*97*	*34*	*63*
- *Shares in associated undertakings held as financial assets*	*28*	-	*2*	*9*	*21*	-	*21*
- *Treasury bills, bonds and other fixed-income securities held as financial assets*	*4 739*	*-185*	*4 079*	*1 406*	*7 227*	*79*	*7 147*
2. Tangible assets	545	-5	105	106	538	195	344
- *Land and buildings*	*329*	*-4*	*68*	*60*	*334*	*66*	*268*
- *Other tangible assets*	*215*	*-2*	*37*	*46*	*204*	*128*	*76*
3. Intangible assets	142	-4	11	5	144	139	4
- *Start-up costs*	*4*	-	-	*4*	*1*	*1*	-
- *Goodwill acquired against payment*	*111*	*-4*	*4*	-	*111*	*111*	-
- *Software and other intangibles*	*27*	-	*7*	*1*	*32*	*28*	*4*

(*) including standard provisions.

note 13 | Tangible assets

Land and buildings used by the group for its own purposes appear under the item "Tangible assets" and amount to EUR 242 million (2002: EUR 204 million).

note 14 | Other assets

The item "Other assets" covers miscellaneous short-term receivables such as dividends and coupons remitted by customers to the Bank for collection and which have already been paid by the Bank.

As at 31 December 2003 this item also included deferred tax assets, total amount EUR 78 million (2002: EUR 78 million).

note 15 | Transactions with group companies and subordinated claims

As at 31 December 2003 (2002), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

EUR million	LOANS AND ADVANCES TO ASSOCIATED UNDERTAKINGS	LOANS AND ADVANCES TO UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Assets		
1.1 Loans and advances to	383	195
credit institutions	(340)	(118)
1.2 Loans and advances	53	1
to customers	(39)	(2)
1.3 Bonds and other fixed-	14	-
income securities	(1)	(-)

EUR million	LOANS AND ADVANCES TO ASSOCIATED UNDERTAKINGS	LOANS AND ADVANCES TO UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
2. Liabilities		
2.1 Amounts owed	389	36
to credit institutions	(224)	(57)
2.2 Amounts owed	142	2
to customers	(115)	(3)

Total of subordinated claims are as follows:

EUR million	TOTAL OF SUBORDINATED CLAIMS	OF WHICH: AGAINST ASSOCIATED UNDERTAKINGS	OF WHICH: AGAINST UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
Bonds and other fixed-income securities	21 (6)	- (-)	- (-)

Subordinated claims are assets with rights which can only be exercised once the claims of other creditors have been settled, in the event of liquidation or insolvency.

note 16 Debts evidenced by certificates

As at 31 December 2003, the amount of cash certificates and bonds in circulation maturing in 2004 was EUR 245 million (2002: 282 million for those maturing in 2003).

note 17 Other liabilities

The item "Other liabilities" mainly covers miscellaneous amounts payable in the short-term such as coupons and securities to be redeemed as paying agent.

note 18 Subordinated liabilities

All the loans are denominated in EUR except for the one issued on 25 November 1998 for an amount of DKK 400 000 000.

The following subordinated loans were outstanding as at 31 December 2003:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	POSITION AS AT 31.12.2003	POSITION AS AT 31.12.2002
Subordinated debenture loan	7.875 %	19/07/94	19/07/04	24.8	24.8
Subordinated debenture loan	8.625 %	14/10/94	14/10/04	24.8	24.8
Subordinated debenture loan	7.375 %	25/10/95	25/10/05	74.4	74.4
Subordinated debenture loan	7.125 %	17/11/95	17/11/05	49.6	49.6
Subordinated debenture loan	6.000 %	28/08/96	28/08/03	-	49.6
Subordinated debenture loan	4.500 %	17/04/98	17/04/08	49.6	49.6
Subordinated debenture loan	5.000 %	26/06/98	26/06/08	49.6	49.6
Subordinated debenture loan	4.625 %	28/10/98	28/10/08	49.6	49.6
Subordinated debenture loan	5.250 %	25/11/98	25/11/08	53.7	53.8
Subordinated debenture loan	6.375 %	31/01/01	31/01/11	400.0	400.0
Subordinated debenture loan	6.375 %	23/02/01	23/02/16	200.0	200.0
				976.0	1 025.7

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2003, EUR 35 million had been issued (2002: EUR 27 million).

Subordinated loans and cash certificates rank immediately after all other unsubordinated liabilities and commitments of the Bank towards third parties.

Interest payable by the Bank for liabilities subordinated during the financial year amounts to EUR 65 million (2002: EUR 68 million).

note 19 | Special items with a reserve quota

The amount booked under the item "Special items with a reserve quota" relates to capital gains on reinvestment as defined in Article 54 and 54(a) of the law on income tax.

Pursuant to these Articles, capital gains resulting from the transfer or the conversion of assets may be exempted from tax, if certain conditions are met, when such capital gains are transferred to other assets acquired or constituted by the Bank.

Capital gains from the transfer of assets mainly result from the sale of buildings and disposal of participating interests and various securities.

note 20 | Hybrid capital instruments

In 2003 the Bank issued a capital hybrid instrument for JPY 20 billion. This loan can be assimilated in Tier 1.

The contract governing this loan does not give compulsory maturity dates and does not contain stipulations pursuant to which an early redemption could be required by an investor.

This loan is subordinated to all other debts which the Bank has to third parties. It is not convertible. Expenses paid by the Bank for this loan during the year amounted to JPY 314 million.

note 21 | Capital

The subscribed and paid-up capital was EUR 189 million represented by 18 353 387 ordinary shares without par value and by 1 975 320 non-voting preference shares without par value. As at 31 December 2003, the Bank held 60 (2002: 905) of its own shares.

note 22 Development of reserves and results brought forward

EUR million	RESERVES	PROFIT BROUGHT FORWARD
1. Balance as at 1 January 2003	218.7	0.4
2. Profit for the financial year ended 31 December 2002		180.9
3. Allocation of profit:		
Transfer to reserves	68.4	(68.4)
Dividends		(110.4)
Directors' fees		(1.7)
4. Other movements	(90.4)	
5. Balance as at 31 December 2003	196.7	0.7

Pursuant to the Luxembourg law on public limited companies *(sociétés anonymes)* a sum equal to not less than 5% of the net profit is allocated each year to a reserve account until such time as that reserve is equal to 10% of the equity capital. The allocation is made during the following financial year. The legal reserve cannot be distributed.

The other movements are mainly explained by the variations in differences of the first consolidation noted during the financial year 2003. The differences in the first consolidation were completely deducted from the reserves (see note 2.11).

note 23 Assets pledged as collateral security

As at 31 December 2003 (2002) the total amount of assets pledged by the Bank as collateral security for its own commitments is as follows:

TOTAL ASSETS PLEDGED AS COLLATERAL SECURITY	AMOUNT EUR mio	COMMENTS
Treasury and other bills	2 791 (1 424)	Assets pledged by the Bank as collateral security for its activities with the Luxembourg Central Bank
Assets pledged as collateral security	3 213 (-)	Assets pledged within the framework of "repo-reverse repo" activity
Bonds and other fixed-income securities, other assets	286 (317)	Assets pledged by the Bank as collateral security for its activities with the central banks and clearing houses
Bonds and other fixed-income securities	27 (30)	Assets pledged by the Bank as collateral security for its securities lending or credit lines received
Other assets	1 (1)	Assets pledged by the Bank as collateral security for its activities carried out on a derivatives market

note 24 | Contingent liabilities

The contingent liabilities of the Bank include in particular the following items as at 31 December:

EUR million	TOTAL CONTINGENT LIABILITIES 2003	2002	OF WHICH CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2003	2002
Guarantees and other direct credit substitutes	434	587	31	39
Counter-guarantees	263	333	1	1
Documentary credits	21	34	-	1
Other contingent liabilities	19	34	-	-
	738	988	32	41

Guarantees and other direct credit substitutes represent real and personal security made on behalf of associated undertakings and third parties.

note 25 | Commitments

The main items booked under "Commitments" as at 31 December were as follows:

EUR million	TOTAL COMMITMENTS 2003	2002	OF WHICH COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2003	2002
Forward purchase of assets	4	5	-	-
Forward sale of assets	-	14	-	-
Amounts to be paid up for securities and participating interests	29	35	-	-
Unused confirmed credits	2 379	2 420	71	32
Settlement of spot exchanges	411	173	7	11
	2 822	2 646	79	43

The Bank has contracted certain other commitments which are not recorded in the balance sheet or the off-balance sheet items but should be mentioned in order to obtain a clear picture of its financial situation.

Thus the Bank is a member of the Association for the Guarantee of Deposits, Luxembourg, referred to in note 39 below.

The Bank is also a member of the clearing system of the Banking Association for the euro.

note 26 | Services

The group provides the following services to its customers:

- wealth management advice,
- securities custody and administration,
- rental of safes,
- fiduciary representative services,
- agent services,
- custodian for undertakings for collective investment.

note 27 | Breakdown of drivatives by category of instrument and residual maturity

The table below gives **the breakdown of <u>non-trading book derivatives</u> as at 31 December 2003**, (as defined in Note 4) by category of instrument and residual maturity.

The great majority of these operations aim at covering fluctuations in interest rates, exchange rates and market prices.

This table shows only operations to be delivered.

DERIVATIVES (non-trading book)	OTC						STOCK MARKET					
					2003	2002					**2003**	2002
notional value in EUR million	<=3 MONTHS	>3 MONTHS <=1 YEAR	>1 YEAR <=5 YEARS	>5 YEARS	**TOTAL**	TOTAL	<=3 MONTHS	>3 MONTHS <=1 YEAR	>1 YEAR <=5 YEARS	>5 YEARS	**TOTAL**	TOTAL
Categories of instruments												
Interest rate instruments												
Futures	1	-	-	-	1	-	-	-	-	-	-	-
Swaps	7 018	14 795	5 513	1 483	28 808	19 602	-	200	32	-	232	-
Options	56	375	416	12	859	833	-	-	-	-	-	-
					29 668	**20 435**					**232**	**-**
Gold/currency instruments												
Futures	1 131	59	-	-	1 190	1 333	90	14	-	-	105	97
Swaps	8 061	2 207	571	48	10 886	10 239	-	-	-	-	-	-
Options	101	35	-	-	135	167	4	2	-	-	5	-
					12 212	**11 739**					**110**	**97**
Equity instruments												
Futures	103	-	-	-	103	32	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Options	-	5	58	-	63	12	33	-	5	-	38	52
					166	**44**					**38**	**52**
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total					**42 045**	**32 218**					**380**	**149**

note 28 | Breakdown of balance-sheet and off-balance-sheet items by country group

The table below gives the breakdown of asset items by country group as at 31 December.

ASSET ITEM EUR million (accounting value)	COUNTRY ZONE	2003	2002
Cash and loans and advances to credit institutions	European Union	11 467	9 165
	Other zone A countries	455	604
	Other	61	50
		11 983	**9 820**
Loans and advances to customers	European Union	4 744	4 217
	Other zone A countries	139	359
	Other	165	165
		5 047	**4 741**
Treasury bills and transferable securities, excluding participating interests and interests in associated undertakings	European Union	11 818	11 183
	Other zone A countries	2 209	2 487
	Supranational outstandings	44	109
	Other	196	139
		14 267	**13 917**

The table below gives the breakdown of liability items by country group as at 31 December.

LIABILITY ITEM EUR million (accounting value)	COUNTRY ZONE	2003	2002
Amounts owed to credit institutions	European Union	9 908	5 655
	Other zone A countries	2 494	2 922
	Other	297	327
		12 699	**8 904**
Amounts owed to customers	European Union	14 479	14 894
	Other zone A countries	488	562
	Supranational outstandings	93	72
	Other	865	870
		15 926	**16 399**

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December.

OFF-BALANCE-SHEET ITEM EUR million (accounting value)	COUNTRY ZONE	2003	2002
Contingent liabilities	European Union	689	918
	Other zone A countries	32	43
	Other	17	26
		738	**988**
Commitments: unused confirmed credits	European Union	2 305	2 356
	Other zone A countries	39	38
	Other	34	25
		2 379	**2 420**

note 29 | Breakdown of asset and off-balance-sheet items by economic sector

The table below gives the breakdown of asset items by economic sector as at 31 December.

ECONOMIC SECTORS EUR million (accounting value)	ASSET ITEM	2003	2002
Public sector	Debts	21	21
	Treasury bills and fixed-income securities	10 761	10 190
Public sector total		**10 782**	**10 211**
Banks			
Central banks	Debts	780	310
	Fixed-income securities	11	42
		791	**352**
Multilateral development banks	Fixed-income securities	**44**	**109**
Other banks	Debts	11 203	9 510
	Treasury bills and fixed-income securities	759	735
	Variable-yield securities (*)	18	2
		11 980	**10 246**
Banks total		**12 816**	**10 707**
Financial establishments			
UCI	Debts	159	111
	Fixed-income securities	25	29
	Variable-yield securities (*)	129	278
		314	**418**
Holdings	Debts	129	335
	Fixed-income securities	17	9
	Variable-yield securities (*)	1	1
		148	**345**
Other financial establishments	Debts	1 281	766
	Fixed-income securities	628	716
	Variable-yield securities (*)	11	14
		1 920	**1 497**
Financial establishments total		**2 381**	**2 260**
Other sectors	Debts	3 457	3 508
	Fixed-income securities	1 738	1 654
	Variable-yield securities (*)	123	138
Other sectors total		**5 318**	**5 300**
Total per asset element	Debts	17 030	14 561
	Treasury bills and fixed-income securities	13 985	13 484
	Variable-yield securities (*)	282	433
Overall total		**31 297**	**28 478**

(*): ex holdings and shares in associated undertakings

The table below gives the breakdown of contingent liabilities and unused confirmed credits by country group as at 31 December.

ECONOMIC SECTORS EUR million	OFF-BALANCE-SHEET ITEM	2003	2002
Public sector	Contingent liabilities	-	-
	Unused confirmed credits	14	66
Public sector total		**14**	**66**
Banks			
Other credit institutions	Contingent liabilities	47	172
	Unused confirmed credits	945	963
Banks total		**992**	**1 135**
Financial establishments			
OPC	Contingent liabilities	-	-
	Unused confirmed credits	41	56
Holdings	Contingent liabilities	4	4
	Unused confirmed credits	73	47
		77	**51**
Other financial establishments	Contingent liabilities	41	46
	Unused confirmed credits	33	47
		74	**93**
Financial establishments total		**192**	**199**
Other sectors	Contingent liabilities	646	766
	Unused confirmed credits	1 273	1 241
Other sectors total		**1 918**	**2 007**
Total per off-balance-sheet item	Contingent liabilities	738	988
	Unused confirmed credits	2 379	2 420
Overall total		**3 117**	**3 407**

note 30 | Exposure to credit, exchange and market risks

The capital adequacy requirements for covering credit, exchange and market risks are calculated pursuant to legislation laid down in CSSF Circular 2000/10 on the definition of capital adequacy ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector.

They amounted to an overall total of EUR 852 million as at 31 December 2003 (2002: EUR 893 million). On a consolidated basis, only 1.4% of these are attributable to the consolidated exchange risk and 4.5% to consolidated market risk.

The table below gives the breakdown of balance sheet and off-balance-sheet items by weighted risk category and also derivatives showing the credit risk exposure of the KBL group as at 31 December 2003 and 2002.

	2003		2002
WEIGHTING ATTRIBUTED TO THE COUNTERPARTY EUR million	CREDIT RISK BEFORE WEIGHTING	WEIGHTED RISK	WEIGHTED RISK
Balance sheet items	**28 197**	**8 720**	**9 323**
0 %	11 461	-	-
10 %	16	2	3
20 %	9 311	1 862	2 138
50 %	1 105	552	542
100 %	6 304	6 304	6 640
Off-balance-sheet items	**3 416**	**1 061**	**1 254**
0 %	996	-	-
10 %	915	92	102
20 %	54	11	35
50 %	986	493	590
100 %	466	466	526
Derivatives		**238**	**196**
TOTAL		**10 019**	**10 773**

Derivatives are mainly initiated by the parent company in Luxembourg.

Exchange positions as at 31 December 2003 and 2002 were as follows (short positions are in brackets):

	2003		2002
CURRENCY	NET COUNTERVALUE POSITION, IN EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, IN EUR MILLION	CAPITAL REQUIREMENT FOR COVERING EXCHANGE RISK, IN EUR MILLION
DKK	3.6		
GBP	22.3		
SEK	4.3		
European Union currencies (ex EMU)	30.2	0.5	0.6
ARS	(0.2)		
CAD	0.2		
CHF	(1.3)		
HUF	113.7		
JPY	0.3		
NZD	0.3		
PLN	51.1		
USD	0.9		
ZAR	(0.9)		
Other currencies	(0.3)		
Currencies outside the European Union	163.9	11.2	13.2
Total		11.7	13.8

Most exchange positions are generated by the parent company.

note 31 | Other operating income

The amounts recorded under this item represent income from the activities of the group but which are not related to the current financial year. They also cover capital gains on the sale of holdings, rent from buildings owned by the group and the recovery of tax provisions for previous years. Within the framework of adapting to the IFRS norms, the group wrote back various provisions, including the whole of the AGDL provision (see note 39).

note 32 | Value adjustments on tangible and intangible assets

This item covers *inter alia* the accelerated depreciation of goodwill acquired against payment by subsidiaries.

note 33 Other operating charges

The amounts under this item are essentially the allocations to the provision for various risks and charges.

note 34 Non-consolidated companies

The following undertakings directly owned by the Bank were not included in the scope of consolidation either due to their negligible importance in the consolidated accounts or because of the nature of their activity:

NAME AND REGISTERED OFFICE	PERCENTAGE OF CAPITAL HELD	SHAREHOLDER'S EQUITY	RESULT	REFERENCE DATE
Asia Oceania Management S.A. – Luxembourg	100.00 %	409 561 USD	4 481 USD	30.11.2002
Renelux S.A. – Luxembourg	100.00 %	1 487 361 EUR	555 471 EUR	31.12.2003
Cogere S.A. – Luxembourg	50.00 %	4 199 376 EUR	(*) - 289 765 EUR	31.12.2003
European Fund Administration S.A. – Luxembourg	39.00 %	7 214 175 EUR	- 127 918 EUR	31.12.2003
TVM GmbH Munich – Germany	31.25 %	348 304 EUR	- 30 684 EUR	31.12.2002

(*) Provisional figures

note 35 Number of employees

The average number of persons employed by the companies consolidated by the Bank breaks down as follows:

	NUMBER 2003	NUMBER 2002
Senior management	212	206
Managerial staff	1 226	1 263
Clerical staff	2 393	2 444
Workers	11	12
	3 843	3 925

note 36 Remuneration, advances and commitments in respect of company directors and officers

POSITION AS AT 31.12.2003 EUR	REMUNERATION PAID IN 2003 IN ACCORDANCE WITH POSITION	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	7 208 106 (100)	8 455 281 (33)	5 681 651 (29)	826 960 (9)	646 704 (31)
Senior management	32 481 052 (204)	7 345 288 (73)	5 140 388 (73)	1 376 724 (47)	3 224 912 (170)

( ): number of persons concerned

POSITION AS AT 31.12.2002 EUR	REMUNERATION PAID IN 2002 IN ACCORDANCE WITH POSITION	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	6 415 641 (94)	10 709 047 (24)	4 219 294 (22)	1 085 242 (11)	715 784 (7)
Senior management	33 763 635 (198)	6 056 421 (70)	3 926 157 (72)	961 834 (47)	6 077 750 (159)

( ): number of persons concerned

note 37 Tax on profit from ordinary activities

As at 31 December 2003 the tax on profit from ordinary activities was made up as follows:

- Current tax for an amount of EUR 50 million (2002: a charge of EUR 59 million) ;
- proceeds of deferred interest (cf. Note 2.15) for an amount of EUR 2 million (2002: a product of EUR 41 million).

note 38 Extraordinary charges

As part of its cost control policy, in 2003 the group decided to continue the steps taken in 2002 to encourage early retirement and the plans for restructuring begun in several subsidiaries. The estimated cost was fully provisioned under the item “Exceptional expenses”.

note 39 Association pour la garantie des dépôts

On 25 September 1989 all credit institutions in the banking sector in the Grand Duchy of Luxembourg came together to form a non-profit association under the name of *Association pour la Garantie des Dépôts, Luxembourg* (AGDL).

In accordance with the Law of 5 April 1993, as amended by the Laws of 11 June 1997 and of 27 July 2000, AGDL's sole object is to provide a system for the mutual guarantee of deposits of private customers of AGDL member banks (the "Guarantee"). All depositors who are private persons are eligible for this Guarantee, irrespective of their nationality or place of residence. The Guarantee also extends to small companies subject to the law of a Member State of the European Union, which, because of their size, are authorised, pursuant to Article 215 of the Law of 10 August 1915 on commercial companies, as amended, to draw up a short-term balance sheet.

In the case of the insolvency of a member establishment, the AGDL protects all monetary depositors by guaranteeing the reimbursement of their deposits up to an amount of EUR 20 000.

In the same case, the AGDL protects all investors by guaranteeing the reimbursement of their debts resulting from investments up to an amount of EUR 20 000.

For each member, the Guarantee is limited to a maximum amount of EUR 40 000 or its countervalue in foreign currency per customer, regardless of the number of accounts or deposits a customer may have with the same credit institution.

The amount of the guarantee is an absolute limit and cannot be increased to take into account interest, fees or any other amounts.

In 2003 the group wrote back the AGDL provision set up in previous years (see note 31).

note 40 | Disputes

In the course of 2000, several directors, managers and members of staff of the Bank as well as some former directors, managers and members of staff were charged by a Belgian magistrate with offences relating to fraud as a result of their professional activities at the Bank.

The outcome of these charges is not certain and it is impossible to foresee their possible impact on the financial situation of the Bank.

After analysing the situation and all the reserves already held in line with the Bank's traditionally prudent approach to risk management, it is not, at this moment, deemed necessary to constitute a provision.

NON-CONSOLIDATED ACCOUNTS

NON-CONSOLIDATED BALANCE SHEET

in EUR, as at 31 December

ASSETS	NOTES	2003	2002
Cash, balances with Central banks and post office banks	4, 24, 25	697 578 217	191 567 945
Treasury bills and other bills eligible for refinancing with the Central Bank	4, 5, 6, 8, 19 24, 25	6 531 382 423	5 737 572 368
Treasury bills and similar securities		*6 531 382 423*	*5 737 572 368*
Loans and advances to credit institutions	4, 11, 24, 25	10 496 156 632	9 038 534 988
a) Repayable on demand		*1 258 596 806*	*2 098 156 892*
b) Other loans and advances		*9 237 559 826*	*6 940 378 096*
Loans and advances to customers	4, 11, 24, 25	1 876 934 030	1 464 960 277
Bonds and other fixed-income securities	4, 5, 6, 8, 11 19, 24, 25	4 752 298 056	4 876 839 501
a) Issued by public bodies		*3 754 224 839*	*3 709 140 250*
b) Issued by other borrowers		*998 073 217*	*1 167 699 251*
Shares and other variable-yield securities	4, 5, 24, 25	139 468 458	273 313 588
Participating interests	5, 7, 8, 29	43 987 938	67 161 765
Shares in associated undertakings	5, 7, 8, 29	1 071 567 647	896 895 105
Tangible assets	8, 9	100 056 915	98 214 250
Own shares	17	6 297	77 408
Other assets	10	54 067 867	60 314 334
Prepayments and accrued income	6	608 657 503	638 174 541
TOTAL ASSETS	**3**	**26 372 161 983**	**23 343 626 070**

The notes follow.

LIABILITIES	NOTES	2003	2002
Amounts owed to credit institutions	4, 11, 24	11 664 650 610	7 643 043 947
a) Repayable on demand		*849 940 480*	*1 173 153 062*
b) With agreed maturity dates or periods of notice		*10 814 710 130*	*6 469 890 885*
Amounts owed to customers	4, 11, 24	10 800 729 314	11 450 535 172
a) Saving deposits		*787 377 705*	*773 887 439*
b) Other debts			
ba) Repayable on demand		*1 880 585 672*	*1 666 627 373*
bb) With agreed maturity dates or periods of notice		*8 132 765 937*	*9 010 020 360*
Debts evidenced by certificates	4, 12	372 253 530	616 422 913
Bonds and debentures in circulation		*372 253 530*	*616 422 913*
Other liabilities	13	192 221 502	256 809 532
Accruals and deferred income	6	577 054 079	787 169 028
Provisions for liabilities and charges		153 777 347	151 882 144
a) Provisions for taxes		*57 959 358*	*53 529 159*
b) Other provisions	*34*	*95 817 989*	*98 352 985*
Subordinated liabilities	14	1 011 426 379	1 052 742 335
Special items with a reserve quota	15	21 778 932	22 368 870
Fund for general banking risks		118 668 802	118 668 802
Hybrid capital instruments	16	148 093 299	-
Subscribed capital	17, 18	188 987 524	188 987 524
Share premium account	18	354 569 112	354 569 112
Reserves	18	587 281 349	528 681 350
Profit brought forward	18	666 054	376 341
Profit for the financial year	18	180 004 150	171 369 000
TOTAL LIABILITIES	**3**	**26 372 161 983**	**23 343 626 070**

OFF-BALANCE SHEET ITEMS			
Contingent liabilities	20, 24, 25	471 961 109	608 984 341
Of which: guarantees and assets pledged as collateral security		*462 992 024*	*602 867 706*
Commitments	21, 24, 25	1 343 434 769	1 344 763 825
Fiduciary operations	22	1 014 108 825	1 222 245 792

The notes follow.

NON-CONSOLIDATED PROFIT AND LOSS ACCOUNT

in EUR, as at 31 December

	NOTES	2003	2002
Interest receivable and similar income		1 835 561 205	2 122 211 470
Of which: that arising from fixed-income securities		*581 879 132*	*526 791 915*
Interest payable and similar charges	14	(1 628 084 703)	(1 920 505 497)
Net interest	6	207 476 502	201 705 973
Income from securities		101 294 913	92 298 786
a) Income from shares and other variable-yield securities		*2 907 358*	*42 540 591*
b) Income from participating interests		*1 462 814*	*3 613 613*
c) Income from shares in associated undertakings		*96 924 741*	*46 144 582*
Commissions receivable		85 905 854	94 940 243
Commissions payable		(17 619 370)	(15 112 668)
Net commissions		68 286 484	79 827 575
Net profit on financial operations		(28 214 261)	49 073 784
Other operating income	28	62 009 771	75 049 535
General administrative expenses		(155 869 708)	(175 176 271)
a) Staff costs		*(91 804 147)*	*(99 230 076)*
Of which: - wages and salaries	*31*	*(80 311 494)*	*(84 893 461)*
- social security costs		*(10 156 604)*	*(12 624 293)*
of which: social security costs relating to pensions		*(7 963 560)*	*(10 273 074)*
b) other administrative expenses		*(64 065 561)*	*(75 946 195)*
Value adjustments in respect of tangible and intangible expenses		(5 462 187)	(7 387 409)
Other operating charges		(2 647 329)	(3 732 540)
Value adjustments and re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		7 311 094	12 344 941

The notes follow.

	NOTES	2003	2002
Value adjustments and re-adjustments in respect of transferable securities held as financial assets, participating interests and shares in associated undertakings		(11 638 282)	(64 487 877)
Transfers to "special items with a reserve quota"	15	372 004	7 848 624
Tax on profit from ordinary activities		(39 000 000)	(45 700 000)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		**203 919 001**	**221 665 121**
Extraordinary expenses	32	(15 451 000)	(38 900 000)
Other taxes not shown under the preceding items		(8 463 851)	(11 396 121)
PROFIT FOR THE FINANCIAL YEAR	**18**	**180 004 150**	**171 369 000**

The notes follow.

note 1 General

1.1 Incorporation and management of the Bank

Kredietbank S.A. Luxembourgeoise (hereinafter "the Bank") was incorporated in Luxembourg on 23 May 1949 as a public limited company *(société anonyme)*.

The Bank belongs to the ALMANIJ Group, whose parent company is ALMANIJ N.V., a company governed by Belgian law, having its registered office at Schoenmarkt 33, B-2000 ANTWERP.

The consolidated accounts of the ALMANIJ Group are available at the registered office of ALMANIJ N.V.

The commercial policy and the valuation rules of the Bank are, unless subject to Luxembourg laws and regulations, determined and monitored by the Board of Directors.

1.2 Nature of activities

The corporate purpose of the Bank is to carry out all banking and credit activities.

In addition, the Bank is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main corporate purpose, either directly or through shareholding, or in any other manner, these provisions to be understood in the widest manner possible.

The Bank may carry out any activity which contributes in any way whatsoever to the achievement of its corporate purpose.

As a member of the ALMANIJ Group, the Bank belongs to an international network of associated companies, subsidiaries, branches and representative offices present in the main industrialised countries and international financial centres.

1.3 Annual accounts

The financial year corresponds to the calendar year.

The Bank draws up its annual accounts in euros (EUR), which is the currency of its equity capital.

note 2 | Main accounting methods

The annual accounts of the Bank have been prepared in conformity with the law as well as with the accounting principles that are generally accepted in the banking sector in the Grand Duchy of Luxembourg.

The main accounting rules that have been applied are the following:

This year the Bank made two changes to its accounting methods detailed at point 2.1. "Conversion of items in currencies" and 2.8 "Trading book". These changes in the accounting methods were made in the framework of the gradual convergence towards reporting standards based on the future introduction of IFRS norms.

2.1 Conversion of items in foreign currencies

The Bank maintains a multi-currency accounting system under which all transactions are registered in the original foreign currency on the day on which the contract is concluded.

In preparing the annual accounts, assets and liabilities in foreign currencies are converted into EUR at the exchange rate applicable on the date of the balance sheet; differences resulting from such conversions are recorded in the profit and loss account.

Since 2003 and in anticipation of the introduction of the IFRS norms, income and expenses expressed in foreign currencies have been entered in their respective currencies and periodically converted at the average monthly rate. In previous years, the rates of exchange used were those applicable on the date of the conversion. This change in the accounting methods did not have a significant effect on the profit and loss account as at 31 December 2003.

On each closing of the balance sheet the Bank revalues the forward and spot positions resulting from outright forward contracts and from exchange swaps aimed at hedging.

In this context, all the latent results, including unrealised capital gains, of forward exchange transactions are entered in the profit and loss account.

Unhedged forward exchange transactions are individually valued on the basis of the exchange rate applicable at the date of the balance sheet. Capital gains are not taken into account while a provision is made for losses in the balance sheet as a liability under the item "Provisions for liabilities and charges: other provisions".

2.2 Financial instruments

Any commitments of the Bank resulting from financial instruments, such as interest rate swaps, forward rate agreements, financial futures and options are recorded at the date of the transaction in the off-balance sheet items.

When the balance sheet is drawn up, a provision is made for unrealised capital losses recorded at the date of the individual valuation, at market rates, for trading transactions which have not yet been completed. This provision is booked as a liability under the item "Provisions for liabilities and charges: other provisions". Unrealised capital gains are not taken into account.

2.3 Value adjustments and specific provisions for bad and irrecoverable debts

The bank's policy is to effect value adjustments and to constitute specific provisions in respect of bad and irrecoverable debts. They are determined with prudence by the Board of Directors.

The value adjustments are deducted from the corresponding assets items while the provisions relating to off-balance sheet items are booked as liabilities under the item "Provisions for liabilities and charges: other provisions".

2.4 Standard provision for assets at risk

In accordance with the provisions of Luxembourg tax legislation, the Bank’s policy is to make a standard provision for contingent liabilities as defined in the prudential regulations for the banking sector. The object of this provision is to cover liabilities which are expected but not yet identified when the annual accounts are drawn up.

In line with the instructions issued on 16 December 1997 by the Head of the Tax Office, the maximum level of the provision, which is tax exempt, is 1.25% of assets at risk.

The standard provision for assets at risk is allocated pro rata to the items on which calculation of the provision is based between:

- a value adjustment, which is deducted from the asset items comprising the assets at risk, and
- a provision for accrued liabilities, attributable to the credit risk on off-balance sheet items, foreign exchange and market risks, which is booked as a balance-sheet liability under the item: “Provisions for liabilities and charges: other provisions".

2.5 Fund for general banking risks

In accordance with Article 63 of the law on the annual accounts of banks, the Bank may constitute a fund to cover general banking risks. This fund is recorded separately on the liabilities side of the balance sheet. Transfers into the fund for general banking risks are not tax deductible.

2.6 Bills

Treasury bills are entered in the balance sheet at their acquisition cost, plus accrued interest not yet due, calculated on a discount basis.

2.7 Transferable securities

Securities are registered in the balance sheet at their acquisition cost. Where appropriate, the acquisition cost is increased by any accrued interest not yet due for securities issued on a discount basis.

The Bank values its portfolio on the basis of weighted average prices.

Where appropriate, market risk and debtor risk are taken into account.

Value adjustments are deducted from the securities to which they relate. No account is taken of capital gains unless this affects the fixed-income securities in the trading book.

2.8 Bonds and other fixed-income securities

For the purposes of valuation, the portfolio of fixed-income securities is divided into three categories:

- securities included in the investment portfolio, to be used for the long-term requirements of the Bank,
- those included in the trading book, acquired with a view to selling them in the short term,
- those included in the investment portfolio, i.e. securities which do not fall into either of the two preceding categories.

The fixed income securities are valued as follows:

Financial assets

Financial assets are accounted for at the acquisition value in so far as they comply with the conditions of eligibility set by the legislation governing bank accounts and current banking regulations. Assets which do not meet these conditions are valued at "lower of cost or market".

When the acquisition price of fixed-income securities considered as financial assets is greater than the redemption price, the difference may be directly entered in the profit and loss account through the item accruals and deferred income on the liabilities side of the balance sheet, up to a maximum not exceeding the lesser of the following two amounts: 10% of the profit for the year or 10% of the difference between interest receivable and similar income and interest payable and similar charges.

Beyond this authorised maximum amount, the Bank has charged the depreciation to the income statement *pro rata temporis* via the accruals and deferred income on the liabilities side.

Where the acquisition price of fixed-income securities considered as financial assets is lower than their redemption value, the discount is taken into the income statement *pro rata temporis* via the prepayments and accrued income on the assets side.

Investment portfolio

Fixed-income securities in the investment portfolio are valued at "lower of cost or market".

Trading book

Since 2003 and in anticipation of the introduction of the IFRS norms, fixed-income securities in the trading book have been valued at “mark-to-market”. In previous years these securities were valued at “lower of cost or market”. This change in the accounting methods did not have a significant effect on the profit and loss account as at 31 December 2003.

2.9 Equities and other variable-yield securities

Equities and other variable-yield securities are valued at "lower of cost or market".

2.10 Participating interests and shares in associated undertakings

Participating interests and shares in associated undertakings are valued at "lower of cost or market".

2.11 "Beibehaltungsprinzip"

The Bank’s policy is to maintain the value adjustments previously constituted on certain asset items, but which no longer correspond to a loss following an increase in the estimated value of assets concerned, pursuant to Articles 56(2)(f) and 58(2)(e) of the law on the annual accounts of banks.

2.12 Tangible assets

Tangible assets are booked at acquisition cost.

The value of tangible assets which have a limited time use is reduced by value adjustments calculated in such a manner as to depreciate the assets over the period of use, estimated from when they enter into service.

2.13 Special items with a reserve quota

Special items with a reserve quota include amounts likely to be exempt from tax. The exemption concerns, in particular, capital gains made pursuant to Articles 53, 54 and 54(a) of the law on income tax.

2.14 Taxes

Tax charges are assessed at the end of each fiscal year. The total balance of tax payable, after prepayments have been taken into account, is booked as a liability under "Provisions for liabilities and charges: provisions for taxation".

Further, pursuant to Article 164(a) of the Income Tax Law *(LIR: loi sur l'mpôt sur le revenu)*, the Bank has obtained the tax authorities' approval to carry out the fiscal integration of certain subsidiaries so that their respective fiscal results are put together with those of Kredietbank S.A. Luxembourgeoise (fiscal integration regime). Charges for the communal trade tax *(Impôt Commercial Communal)* and corporation income tax calculated at the level of the total fiscal integration are divided between the different companies which have been fiscally integrated pro rata to their pre-tax figures.

The subsidiaries included in this fiscal integration are:

- Banque Continentale du Luxembourg S.A. (since 1999) ;
- KBL Founder S.A. (since 1999, liquidated in 2003) ;
- Kredietrust Luxembourg S.A. (since 2002) ;
- Financière et Immobilière S.A. (since 2002) ;
- KBL Ré S.A. (since 2002, liquidated in 2003) ;
- Renelux S.A. (since 2002) ;
- Centre Europe S.A. (since 2003) ;
- KB Lux Immo S.A. (since 2003).

note 3 | Assets and liabilities in foreign currencies

As at 31 December 2003, the total amount of assets denominated in foreign currencies (ex EUR), converted into EUR was EUR 8 300 million (2002: EUR 6 582 million); the total amount of liabilities (ex EUR) was EUR 5 880 million (2002: EUR 6 112 million).

note 4 | Breakdown of assets and liabilities by residual value

The asset and liability items are presented in the following tables on the basis of whether they belong to the trading book or not, pursuant to the regulations in force on the definition of equity ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector and as defined below.

The trading book comprises:

- own positions, either long or short, in:
  - money market instruments,
  - fixed-income securities,
  - variable-yield securities including shares in undertakings for collective investment,
  - raw materials,
  - derivatives,

  when they are taken or held with the intention of:
  - balancing them in the short term, or
  - profiting in the short term from real and/or discounted spreads between their purchase and sale prices, or
  - profiting in the short term from other variations in price or interest rates,

- positions resulting from simultaneous purchases and sales carried out on own account,

- positions linked to underwriting transferable securities or money market instruments on a firm commitment,

- any other position taken or held to cover other positions in the trading book.

Non-trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2003.

EUR million	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS OR INDEFINITE PERIOD	TOTAL 2003	TOTAL 2002
Asset item						
Cash, balances with central banks and post office banks	698	-	-	-	698	192
Treasury bills and other bills eligible for refinancing with the Central Bank	896	3 180	2 455	-	6 531	5 727
Loans and advances to credit institutions	5 424	1 598	85	88	7 195	8 612
Payable on demand	*1 259*	-	-	-	*1 259*	*2 098*
With agreed maturity or periods of notice	*4 165*	*1 598*	*85*	*88*	*5 936*	*6 514*
Loans and advances to customers	519	78	157	159	913	1 107
Bonds and other fixed-income securities	403	1 249	2 401	603	4 656	4 797
Public issuers	*322*	*1 055*	*1 866*	*473*	*3 716*	*3 703*
Other issuers	*81*	*194*	*535*	*130*	*940*	*1 093*
Equities and other variable-yield securities	-	-	-	133	133	269
Liability item						
Amounts owed to credit institutions	10 112	1 506	-	-	11 618	7 643
Payable on demand	*850*	-	-	-	*850*	*1 173*
With agreed maturity or periods of notice	*9 262*	*1 506*	-	-	*10 768*	*6 470*
Amounts owed to customers	7 612	2 135	7	7	9 761	10 666
Savings deposits	*787*	-	-	-	*787*	*774*
Others repayable on demand	*1 881*	-	-	-	*1 881*	*1 667*
With agreed maturity dates or periods of notice	*4 944*	*2 135*	*7*	*7*	*7 093*	*8 225*
Debts evidenced by certificates	34	210	126	2	372	616

The amounts are given net of general provisions.
The additions are based on the exact amounts and not amounts rounded up.
The same applies for the tables that follow.

Trading book asset and liability items are entered in the following table according to their residual maturity as at 31 December 2003.

EUR million	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year	Outstanding at end of financial year	Average outstanding for the financial year
	Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years or indefinite period		Total 2003		Total 2002	
Asset item												
Loans and advances to credit institutions (*)	3 301	3 195	-	-	-	-	-	-	3 301	3 195	427	472
Loans and advances to customers (*)	964	776	-	-	-	-	-	-	964	776	357	448
Bonds and other fixed-income securities	35	28	3	2	58	63	-	40	96	133	80	76
Equities and other variable yield securities	-	-	-	-	-	-	6	6	6	6	4	5
Liability item												
Amounts owed to credit institutions (*)	47	19							47	19		
Amounts owed to customers (*)	1 040	809	-	-	-	-	-	-	1 040	809	785	796

The fair value of equities in the trading book at the end of the financial year are not significantly different (variation < 1 %) from the net accounting value.

(*) The loans and advances correspond to loan transactions and securities lending, as well as Repo and Reverse repo transactions.

note 5 | Transferable securities

Securities entered under the items "Treasury bills and other bills eligible for refinancing with the Central Bank", "Bonds and other fixed-income securities", "Equities and other variable-yield securities", "Participating interests" and "Shares in associated undertakings" were valued as follows as at 31 December 2003 (2002):

EUR million	LISTED SECURITIES	NON-LISTED SECURITIES	TOTAL
1. Treasury bills, bonds and other fixed-income securities	10 952 (10 451)	332 (163)	11 284 (10 614)
2. Equities and other variable-yield securities	80 (92)	59 (181)	139 (273)
3. Participating interests	21 (21)	23 (46)	44 (67)
4. Shares in associated undertakings	28 (17)	1 044 (880)	1 072 (897)

The amount of value adjustments on transferable securities held under the "Beibehaltungsprinzip" (see note 2.11) as financial assets and current assets amounted as at 31 December 2003 to EUR 5 million (2002: EUR 5 million) and to EUR 18 million (2002: EUR 9 million) respectively.

note 6 Treasury bills, bonds and other fixed-income securities

As at 31 December 2003 securities entered under the item "Treasury bills and other bills eligible for refinancing with the Central Bank" and " Bonds and other fixed-income securities" could be broken down as follows:

EUR million	2003	2002
Financial assets	4 843	2 487
Other fixed-income securities	6 441	8 127
	11 284	**10 614**

Financial assets consist of securities which, pursuant to Article 56 of the law on the annual accounts of banks, are intended to meet the long-term requirements of the Bank (see note 2.8).

The amount of fixed-income securities entered under this item maturing in 2004 is EUR 5 766 million (2002: EUR 4 766 million for those maturing in 2003).

Cumulative depreciation since the acquisition date of premiums on bonds and other fixed-income securities amounted to zero as at 31 December 2003 and 31 December 2002 for premiums entered directly in the profit and loss account. It amounted to EUR 102 million (2002: EUR 107 million) for the premiums taken on a pro rata basis, of which EUR 85 million (2002: EUR 65 million) relates to transferable fixed-income securities having the character of investments.

The amount of discounts on bonds and other fixed-income securities considered as investments decreased from EUR 2.3 million as at 31 December 2002 to EUR 12.4 million as at 31 December 2003.

note 7 Participating interests and shares in associated undertakings in other credit institutions

EUR million	2003	2002
- Participating interests in credit institutions	21	21
- Shares in associated undertakings which are credit institutions	927	764

note 8 Changes in fixed assets

EUR million	ACQUISITION VALUE AS AT 01.01.03	IMPACT OF EXCHANGE RATE	ASSETS ACQUIRED	ASSETS DISPOSED OF	ACQUISITION VALUE AS AT 31.12.2003	CUMULATED VALUE ADJUST-MENTS AS AT 31.12.2003(*)	NET VALUE AS AT 31.12.2003
1. Financial assets	3 606	-114	3 382	764	6 110	173	5 937
- *Participating interests*	*93*	*- 3*	*7*	*27*	*70*	*26*	*44*
- *Shares in associated undertakings held as investments*	*930*	*-20*	*216*	*6*	*1 120*	*70*	*1 050*
- *Treasury bills and bonds and fixed-income securities held as financial assets*	*2 583*	*-91*	*3 159*	*731*	*4 920*	*77*	*4 843*
2. Tangible assets	143	-	9	18	134	34	100
- *Land and buildings*	*122*	*-*	*4*	*9*	*117*	*29*	*88*
- *Technical equipment, machines and furniture*	*21*	*-*	*5*	*9*	*17*	*4*	*13*
3. Intangible fixed assets	3	-	-	3	-	-	-
- *Incorporation costs*	*3*	*-*	*-*	*3*	*-*	*-*	*-*

(*) including standard provisions

note 9 | Tangible assets

Land and buildings used by the Bank for its own purposes appear under the item "Tangible assets" and amount to EUR 66 million (2002: EUR 72 million).

note 10 | Other assets

The item "Other assets" covers miscellaneous short-term receivables such as dividends and coupons remitted by customers to the Bank for collection and which have already been paid by the Bank.

note 11 | Transactions with group undertakings and subordinated claims

As at 31 December 2003 (2002), outstanding transactions with associated undertakings and with companies in which the Bank has a participating interest could be summarised as follows:

EUR million	VALUE OF LOANS/ADVANCES TO ASSOCIATED UNDERTAKINGS	VALUE OF LOANS/ADVANCES TO COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Assets		
1.1 Loans and advances	2 843	195
to credit institutions	(2 618)	(118)
1.2 Loans and advances	141	1
to customers	(73)	(2)
1.3 Bonds and other	14	-
fixed-income securities	(1)	(-)

EUR million	VALUE OF DEBTS WITH ASSOCIATED UNDERTAKINGS	VALUE OF DEBTS WITH COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST
2. Liabilities		
2.1 Amounts owed	2 606	36
to credit institutions	(2 215)	(57)
2.2 Amounts owed	194	2
to customers	(160)	(3)

Total of subordinated claims are as follows:

EUR million	TOTAL OF SUBORDINATED CLAIMS	OF WHICH: AGAINST ASSOCIATED UNDERTAKINGS	OF WHICH: AGAINST UNDERTAKINGS IN WHICH THE BANK HAS A PARTICIPATING INTEREST
1. Loans and advances	103	103	-
to credit institutions	(123)	(123)	-
2. Bonds and other	20	1	-
fixed-income securities	(3)	-	-

Subordinated claims are assets with rights which can only be exercised once the claims of other creditors have been settled, in the event of liquidation or insolvency.

note 12 Debts evidenced by certificates

As at 31 December 2003, the amount of cash certificates and bonds in circulation maturing in 2004 was EUR 245 million (2002: EUR 282 million for those maturing in 2003).

note 13 Other liabilities

The item "Other Liabilities" mainly covers miscellaneous amounts payable in the short-term such as coupons and securities to be redeemed as paying agent.

note 14 Subordinated liabilities

All the loans are denominated in EUR except for the one issued on 25 November 1998 for an amount of DKK 400 000 000.

The following subordinated loans were outstanding as at 31 December:

EUR million	INTEREST RATE	ISSUE DATE	MATURITY DATE	ACCOUNTING BALANCE AS AT 31.12.2003	ACCOUNTING BALANCE AS AT 31.12.2002
Subordinated debenture loan	7.875 %	19/07/94	19/07/04	24.8	24.8
Subordinated debenture loan	8.625 %	14/10/94	14/10/04	24.8	24.8
Subordinated debenture loan	7.375 %	25/10/95	25/10/05	74.4	74.4
Subordinated debenture loan	7.125 %	17/11/95	17/11/05	49.6	49.6
Subordinated debenture loan	6.000 %	28/08/96	28/08/03	-	49.6
Subordinated debenture loan	4.500 %	17/04/98	17/04/08	49.6	49.6
Subordinated debenture loan	5.000 %	26/06/98	26/06/08	49.6	49.6
Subordinated debenture loan	4.625 %	28/10/98	28/10/08	49.6	49.6
Subordinated debenture loan	5.250 %	25/11/98	25/11/08	53.7	53.8
Subordinated debenture loan	6.375 %	31/01/01	31/01/11	400.0	400.0
Subordinated debenture loan	6.375 %	23/02/01	23/02/16	200.0	200.0
				976.0	**1 025.6**

The Bank has issued subordinated 7 and 10-year cash certificates. As at 31 December 2003, EUR 35 million had been issued (2002: EUR 27 million).

Subordinated loans and cash certificates rank immediately after all other unsubordinated liabilities and commitments of the Bank towards third parties.

Interest payable by the Bank for liabilities subordinated during the financial year amounts to EUR 65 million (2002: EUR 68 million).

note 15 | Special items with a reserve quota

The amount entered under the item "Special items with a reserve quota" relates to capital gains on reinvestment as defined in Article 54 and 54(a) of the law on income tax.

Pursuant to these Articles, capital gains resulting from the transfer or the conversion of assets may be exempted from tax, if certain conditions are met, when such capital gains are transferred to other assets acquired or constituted by the Bank.

Capital gains from the transfer of assets mainly result from the sale of buildings and disposal of participating interests and various securities.

note 16 | Hybrid capital instruments

In 2003 the Bank issued a capital hybrid instrument for JPY 20 billion. This loan can be assimilated in Tier 1.

The contract governing this loan does not give compulsory maturity dates and does not contain stipulations pursuant to which an early redemption could be required by an investor.

This loan is subordinated to all other debts which the Bank has to third parties. It is not convertible. Expenses paid by the Bank for this loan during the year amounted to JPY 314 million.

note 17 | Capital

As at 31 December 2002 and 2003, the subscribed and paid-up capital was EUR 189 million represented by 18 353 387 ordinary shares without par value and by 1 975 320 non-voting preference shares without par value. As at 31 December 2003, the Bank held 60 (2002: 905) of its own shares.

note 18 | Development of equity capital, reserves and results brought forward

EUR million	CAPITAL	SHARE PREMIUM	STATUTORY RESERVE	RESERVE FOR OWN SHARES	FREE RESERVES (*)	PROFIT BROUGHT FORWARD	PROFIT FROM THE FINANCIAL YEAR	DIVIDENDS (D) AND DIRECTORS' FEES (T)
Balance as at 1 January 2003	189.0	354.6	18.9	0.1	509.7	0.4	171.4	
Division of profit according to the AGM of 30 April 2003					58.6	-0.4 0.7	-171.4	110.8 (D) 1.7 (T)
Transfer / (carry over) to the reserves for own shares				-0.1	0.1			
Profit for 2003							180.0	
Balance as at 31 December 2003	189.0	354.6	18.9	0.0	568.4	0.7	180.0	

(*) A total amount of EUR 95 million has been allocated to the special reserve for wealth tax, as reductions over five years. To benefit from this tax break, the Bank undertakes to enter, before the end of the financial year following the allocation, in an item in the reserves an amount equal to five times the wealth tax charged and to keep this reserve on the balance sheet for the five tax years following the year of allocation. If this reserve is not kept until the end of this five-year period (for a reason other than incorporation into the capital), the tax charge will be increased for the tax year in question by one fifth of the amount of the reserve used.

Pursuant to the Luxembourg law on public limited companies *(sociétés anonymes)* a sum equal to not less than 5% of the net profit is allocated each year to a reserve account until such time as that reserve is equal to 10% of the equity capital. The allocation is made during the following financial year. The statutory reserve cannot be distributed.

note 19 | Assets pledged as collateral security

As at 31 December 2003 (2002) the total amount of assets pledged by the Bank as collateral security for its own commitments was as follows:

ASSETS PLEDGED AS COLLATERAL SECURITY	AMOUNT EUR million	COMMENTS
Treasury and other bills	2 791 (1 424)	Assets pledged by the Bank as collateral security for its activities with the Luxembourg Central Bank
Securities pledged	3 213 (-)	Assets pledged for repo - reverse repo activity
Bonds and other fixed-income securities	27 (30)	Assets pledged for security lending or lines of credit granted

note 20 | Contingent liabilities

The contingent liabilities of the Bank include in particular the following items as at 31 December:

EUR million	TOTAL CONTINGENT LIABILITIES 2003	2002	OF WHICH: CONTINGENT LIABILITIES TO ASSOCIATED UNDERTAKINGS 2003	2002
Guarantees and other direct credit substitutes	463	602	395	418
Counter-guarantees	9	6	-	-
Documentary credits	-	1	-	1
	472	609	395	419

Guarantees and other direct credit substitutes represent real and personal security made on behalf of associated undertakings and third parties.

note 21 | Commitments

The main items under "Commitments" as at 31 December were as follows:

EUR million	TOTAL COMMITMENTS 2003	2002	OF WHICH COMMITMENTS TO ASSOCIATED UNDERTAKINGS 2003	2002
Forward purchase of assets	2	1	-	-
Forward sale of assets	-	12	-	-
Amounts to be paid up in respect of securities, participating interests and shares in associated undertakings	30	35	1	-
Unused confirmed credits	1 169	1 200	89	51
Settlement of spot exchanges	142	93	7	11
Other	-	4	-	-
	1 343	1 345	97	62

The Bank has contracted certain other commitments which are not recorded in the balance sheet or off-balance sheet items but should be mentioned in order to obtain a clear picture of its financial situation.

Thus the Bank is a member of the Association for the Guarantee of Deposits, Luxembourg, referred to in Note 33 below.

The Bank is also a member of the clearing system of the Banking Association for the euro.

note 22 | Services

The Bank provides the following services to its customers:

- wealth management advice,
- securities custody and administration,
- rental of safes,
- fiduciary representative services,
- agent services,
- custodian for undertakings for collective investment.

note 23 | Breakdown of derivatives by category of instrument and residual maturity

The table below gives **the breakdown of <u>non-trading book derivatives</u> as at 31 December 2003**, (as defined in note 4) by category of instrument and residual maturity.

The great majority of these operations aim at covering fluctuations in interest rates, exchange rates and market prices.

This table shows only operations to be delivered.

TRADING BOOK DERIVATIVES	OTC						STOCK MARKET					
					2003	2002					**2003**	2002
EUR million (notional value)	<= 3 MONTHS	>3 MONTHS <= 1 YEAR	>1 YEAR <=5 YEARS	> 5 YEARS	**TOTAL**	TOTAL	<= 3 MONTHS	>3 MONTHS <= 1 YEAR	>1 YEAR <=5 YEARS	> 5 YEARS	**TOTAL**	TOTAL
Categories of instruments												
Interest rate instruments												
Futures	1	-	-	-	1	-	-	-	-	-	-	-
Swaps	6 833	14 556	4 959	1 243	27 591	18 011	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-	-	-
					27 592	18 011					-	-
Gold/currency instruments												
Futures	136	39	-	-	175	243	-	-	-	-	-	-
Swaps	8 176	2 226	574	48	11 024	10 211	-	-	-	-	-	-
Options	-	11	-	-	11	48	-	-	-	-	-	-
					11 210	10 502					-	-
Equity instruments												
Futures	103	-	-	-	103	32	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	33	-	-	-	33	52
					103	32					33	52
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total					38 905	28 544					33	52

The table below gives **the breakdown of <u>trading book derivatives</u> as at 31 December 2003**, (as defined in note 4) by category of instrument and residual maturity. All trading book derivatives are traded off recognised markets.

This table only shows operations to be delivered.

TRADING BOOK DERIVATIVES	OTC									
									2003	2002
	<= 3 MONTHS		> 3 MONTHS <= 1 YEAR		> 1 <= 5 YEARS		> 5 YEARS		TOTAL	
EUR million (notional value)	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2003	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2003	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2003	NOTIONAL VALUE	CURRENT REPLACEMENT COSTS AS AT 31.12.2003	NOTIONAL VALUE	
Categories of instruments										
Interest rate instruments										
Futures	-	-	2	-	-	-	-	-	2	-
Swaps	10	-	81	1	730	12	785	33	1 606	836
Options	-		-		-		-		-	10
									1 608	**846**
Gold/currency instruments										
Futures	595	-	56	4	-	-	-	-	651	423
Swaps	-	-	19	-	20	1	-	-	39	89
Options	-	-	-	-	-	-	-	-	-	-
									690	**512**
Equity instruments										
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
									-	-
Credit derivatives	14	-	54	-	-	-	-	-	68	106
Total									2 366	1 464

The result of the market-price valuation of all the derivatives (both non-trading and trading book) is EUR 213 million (2002: EUR 96 million).

note 24 | Breakdown of balance sheet and off-balance sheet items by country group

The table below gives the breakdown of asset items by country group as at 31 December.

ASSET ITEM EUR million (accounting value)	COUNTRY ZONE	2003	2002
Cash and loans and advances to credit institutions	European Union	10 743	8 581
	Other zone A countries	387	580
	Other	64	70
		11 194	9 230
Loans and advances to customers	European Union	1 748	1 143
	Other zone A countries	59	248
	Other	70	74
		1 877	1 465
Treasury bills and transferable securities, excluding participating interests and interests in associated undertakings	European Union	9 504	8 658
	Other zone A countries	1 652	1 934
	Supranational outstandings	29	61
	Other	238	235
		11 423	10 888
Total		24 494	21 583

The table below gives the breakdown of liability items by country group as at 31 December.

LIABILITY ITEMS EUR million (accounting value)	COUNTRY ZONE	2003	2002
Amounts owed to credit institutions	European Union	2 488	4 319
	Other zone A countries	8 668	2 815
	Other	509	509
		11 665	7 643
Amounts owed to customers	European Union	10 042	10 576
	Other zone A countries	277	391
	Supranational outstandings	26	26
	Other	456	457
		10 801	11 451
Total		22 466	19 094

The table below gives the breakdown of off-balance sheet items by country group as at 31 December.

OFF-BALANCE-SHEET ITEMS EUR million (accounting value)	COUNTRY ZONE	2003	2002
Contingent liabilities	European Union	461	587
	Other zone A countries	8	16
	Other	3	6
		472	609
Commitments: unused confirmed credits	European Union	1 135	1 154
	Other zone A countries	34	32
	Other	-	14
		1 169	1 200

The table below gives the breakdown of derivatives by country group as at 31 December.

DERIVATIVES EUR million (accounting value)	COUNTRY ZONE	2003	2002
Interest rate instruments			
Futures	European Union	19	-
	Other zone A countries	3	-
	Other	-	-
Swaps	European Union	26 198	15 453
	Other zone A countries	2 980	3 393
	Other	-	-
Options	European Union	-	10
	Other zone A countries	-	-
	Other	-	-
		29 200	18 856
Gold/currency instruments			
Futures	European Union	802	614
	Other zone A countries	18	41
	Other	7	12
Swaps	European Union	7 700	7 259
	Other zone A countries	3 354	3 034
	Other	8	7
Options	European Union	3	-
	Other zone A countries	8	48
	Other	-	-
		11 900	11 015

DERIVATIVES – CONT'D EUR million (accounting value)	COUNTRY ZONE	2003	2002
Equity instruments			
Futures	European Union	50	8
	Other zone A countries	53	23
	Other	-	-
Swaps	European Union	-	-
	Other zone A countries	-	-
	Other	-	-
Options	European Union	33	52
	Other zone A countries	-	-
	Other	-	-
		136	84
Credit derivatives	European Union	63	84
	Other zone A countries	5	22
	Other	-	-
		68	106

note 25 | **Breakdown of asset and off-balance-sheet items by economic sector**

The table below gives the breakdown of asset items by economic sector as at 31 December.

ECONOMIC SECTORS EUR million (accounting value)		ASSET ITEM	2003	2002
Public sector		Loans and advances	8	8
		Treasury bills and fixed-income securities	10 286	9 446
Public sector total			**10 294**	**9 454**
Banks				
	Central banks	Debts	698	192
		Fixed-income securities	11	42
			709	**234**
	Mulitlateral development banks	Fixed-income securities	31	61
			31	**61**
	Other banks	Debts	10 496	9 039
		Fixed-income securities	119	207
		Variable-yield securities (*)	2	2
			10 617	**9 247**
Banks total			**11 357**	**9 542**
Financial establishments				
	OPC	Debts	134	61
		Variable-yield securities (*)	99	231
			233	**293**
	Holdings	Debts	77	252
		Fixed-income securities	9	4
		Variable-yield securities (*)	1	2
			87	**258**
	Other financial establishments	Debts	1 237	721
		Fixed-income securities	327	329
		Variable-yield securities (*)	16	9
			1 580	**1 059**
Financial establishments total			**1 900**	**1 609**

(*): ex interests and shares in associated undertakings.

Economic sectors – cont'd EUR million (accounting value)	asset item	2003	2002
Other sectors			
Agriculture, industry, construction	Debts	38	58
	Fixed-income securities	255	304
	Variable-yield securities (*)	9	8
		302	**370**
Commerce, restauration, hébergement	Debts	31	34
	Fixed-income securities	23	25
	Variable-yield securities (*)	1	1
		55	**60**
Transports et communications	Debts	5	38
	Fixed-income securities	35	49
	Variable-yield securities (*)	-9	3
		31	**90**
Other companies	Debts	218	172
	Fixed-income securities	188	147
	Variable-yield securities (*)	20	17
		426	**336**
Other	Debts	129	121
		129	**121**
Other sectors total		**943**	**977**
Total per asset item	Debts	13 071	10 696
	Treasury bills and fixed-income securities	11 283	10 614
	Variable-yield securities (*)	139	273
Overall total		**24 494**	**21 583**

(*): ex interests and shares in associated undertakings.

The table below gives the breakdown of contingent liabilities and unused credit lines granted by economic sector as at 31 December.

ECONOMIC SECTORS EUR million (accounting value)	OFF-BALANCE-SHEET ITEMS	2003	2002
Banks			
Other banks	Contingent liabilities	178	310
	Credit lines granted	935	947
Banks total		**1 113**	**1 257**
Financial establishments			
UCI	Credit lines granted	**41**	**54**
Holdings	Contingent liabilities	3	-
	Credit lines granted	58	36
		61	**36**
Other financial establishments	Contingent liabilities	228	233
	Credit lines granted	46	59
		274	**292**
Financial establishments total		**376**	**382**
Other sectors			
Agriculture, industry, construction	Contingent liabilities	13	15
	Credit lines granted	10	16
		23	**31**
Commerce, accommodation, catering	Contingent liabilities	-	1
	Credit lines granted	6	6
		6	**6**
Transport and communication	Contingent liabilities	1	1
	Credit lines granted	-	-
		1	**1**
Other companies	Contingent liabilities	47	48
	Credit lines granted	61	70
		108	**118**
Other	Contingent liabilities	2	2
	Credit lines granted	13	12
		15	**13**
Other sectors total		**153**	**169**
Total per off-balance sheet item	**Contingent liabilities**	**472**	**610**
	Credit lines granted	**1 170**	**1 199**
Overall total		**1 642**	**1 809**

The table below gives the breakdown of derivatives by economic sector as at 31 December 2003.

DERIVATIVES EUR million (accounting value)	ECONOMIC SECTORS	2003	2002
Interest rate instruments			
Futures	Other financial establishments	3	-
	Other banks	19	-
Swaps	Other banks	28 770	18 434
	Other financial establishments	398	211
	UCI	10	10
	Holdings	-	154
	Other companies	-	37
	Other services	-	-
Options	Other financial establishments	-	10
		29 200	**18 856**
Gold/currency instruments			
Futures	Other banks	95	391
	Other financial establishments	6	41
	UCI	705	198
	Holdings	8	16
	Other companies	-	5
	Other services	-	1
	Physical persons	13	14
Swaps	Other banks	10 496	9 449
	Other financial establishments	246	310
	UCI	319	540
	Holdings	-	-
	Other companies	1	2
	Other services	-	-
	Physical persons	-	-
Options	Other banks	11	48
		11 900	**11 015**
Equity instruments			
Futures	Other financial establishments	103	32
Options	Other banks	-	30
	Other financial establishments	33	22
		136	**84**
Credit derivatives	Other banks	68	106
		68	**106**

note 26

Breakdown of OTC derivatives by counterparty credit rating

The table below gives the breakdown of OTC and non-trading book derivatives (as defined in note 4) as at 31 December 2003 by counterparty credit rating.

Current, future and total replacement costs and the net exposure to risk are calculated pursuant to legislation laid down in CSSF Circular 2000/10 on the definition of capital adequacy ratios in application of Article 56 of the amended Law of 5 April 1993 on the financial sector.

The column **current replacement costs** only gives the current positive replacement costs, i.e. contracts which, on the basis of an analysis of current market rates have a replacement cost.

The column **potential future replacement costs** reflects the risk likely to be run during the residual life of the derivative. It is calculated on the basis of the nominal amount, based on the residual period left.

The column **net exposure to risk** corresponds to the sum of total replacement costs and the weighting factors applicable to the various counterparties. A capital adequacy requirement is calculated on the basis of this amount.

The notional amount corresponds to the nominal amounts in the contracts cited:

	2003					2002
COUNTERPARTIES' CREDIT RATING (S&P RATINGS) EUR million	NOTIONAL AMOUNTS	CURRENT REPLACEMENT COSTS	POTENTIAL FUTURE REPLACEMENT COSTS	TOTAL REPLACEMENT COSTS	NET EXPOSURE TO RISK	NET EXPOSURE TO RISK
AAA	780	21	4	25	10	4
AA+	501	18	4	22	4	4
AA	6 383	109	15	124	25	9
AA-	9 036	151	43	194	45	42
A+	10 421	376	69	445	89	77
A	2 066	81	17	98	20	3
A-	3 031	20	2	22	5	8
No rating	6 687	65	18	83	23	27
TOTAL	38 905				221	174

note 27 | Exchange positions

Exchange positions as at 31 December 2003 were as follows (short positions are in brackets):

	FORWARD POSITIONS IN FOREIGN CURRENCY MILLIONS	SPOT POSITIONS IN FOREIGN CURRENCY MILLIONS	NET FORWARD POSITIONS IN FOREIGN CURRENCY MILLIONS	NET COUNTERVALUE POSITIONS IN EUR MILLION 2003	NET COUNTERVALUE POSITIONS IN EUR MILLION 2002
AUD	144.2	(144.7)	(0.5)	(0.3)	0.1
CAD	217.5	(217.1)	0.4	0.2	0.2
CHF	344.1	(344.3)	(0.3)	(0.2)	0.0
CZK	(900.0)	897.1	(2.9)	(0.1)	0.1
DKK	(109.0)	114.6	5.6	0.8	0.8
GBP	153.3	(137.4)	15.9	22.6	23.7
HKD	20.9	(23.6)	(2.7)	(0.3)	(0.0)
HUF	(228 118.6)	257 952.3	29 833.7	113.7	126.1
JPY	(415 976.4)	415 969.6	(6.8)	(0.1)	0.2
NOK	(79.4)	96.8	17.3	2.1	(0.3)
NZD	50.0	(49.6)	0.4	0.2	0.2
PLN	(2 238.2)	2 478.2	240.0	51.1	59.9
SEK	(293.8)	331.1	37.22	4.1	9.8
SKK	100.0	(98.8)	1.2	0.0	0.0
USD	2 022.2	(2 022.3)	(0.2)	(0.2)	(65.5)
XAU	0.0	(0.3)	(0.3)	(2.9)	0.0
ZAR	26.2	(25.6)	0.6	0.1	0.1

Positions in HUF and PLN fall under acquisitions of government bonds, acquired in order to benefit from the convergence effects of these currencies preparing to enter the euro.

note 28 | Other operating income

The amounts under this item represent income from the activities of the Bank which are not related to the current financial year. They also cover capital gains on the sale of holdings, rent from buildings owned by the Bank and the write-back of tax provisions for previous years. Within the framework of adapting to IFRS norms, the Bank wrote back various provisions, including the whole of the AGDL provision (see note 33).

note 29 | Principal subsidiaries and associated undertakings

As at 31 December 2003, the list of undertakings in which the Bank had a significant shareholding which amounts to at least 20% of the capital was as follows:

NAME AND REGISTERED OFFICE	PORTION OF CAPITAL HELD	CAPITAL	RESULT	REFERENCE DATE
Brown, Shipley & Co. Ltd – Great Britain	100.00 %	31 679 701 GBP	521 000 GBP	31/12/2003
Kredietbank (Suisse) S.A. – Switzerland	99.99 %	127 021 557 CHF	13 842 520 CHF	31/12/2003
KBL Bank Ireland – Ireland (*)	100.00 %	122 655 838 EUR	8 574 064 EUR	31/12/2003
KBL France S.A. – France	100.00 %	74 332 000 EUR	-6 996 000 EUR	31/12/2003
KB Luxembourg (Monaco) S.A. – Monaco	100.00 %	9 320 496 EUR	400 768 EUR	31/12/2003
Banque Continentale du Luxembourg S.A. – Luxembourg	100.00 %	86 270 696 EUR	8 196 160 EUR	31/12/2003
Financière et Immobilière S.A. – Luxembourg	100.00 %	2 418 442 EUR	203 966 EUR	31/12/2003
Banco Urquijo S.A. – Spain	89.68 %	236 596 559 EUR	9 519 790 EUR	31/12/2003
KB Lux Immo S.A. – Luxembourg	100.00 %	41 293 926 EUR	-3.337.980 EUR	31/12/2003
Renelux S.A. – Luxembourg	100.00 %	1 487 361 EUR	555 471 EUR	31/12/2003
Merck Finck & Co – Germany	100.00 %	169 797 756 EUR	472 373 EUR	31/12/2003
European Fund Administration (EFA) – Luxembourg	39.00 %	7 214 175 EUR	-127 918 EUR	31/12/2003
Kredietrust Luxembourg S.A. (KTL) – Luxembourg	100.00 %	10 798 818 EUR	9 841 032 EUR	31/12/2003
Fumagalli Soldan SIM spa – Milan	80.00 %	12 967 885 EUR	-2 443 517 EUR	31/12/2003
Theodoor Gilissen Bankiers N.V. – Netherlands	100.00 %	72 195 217 EUR	3 550 682 EUR	31/12/2003
Fidef Ingénierie Patrimoniale S.A. – France	99.97 %	-884 279 EUR	-1 348 525 EUR	31/12/2003
Gecalux SARL – Luxembourg	50.00 %	111 467 EUR	30 729 EUR	31/12/2003

(*): direct and indirect percentage holding

KBL Founder S.A. and KBL Ré S.A. were liquidated in 2003.

note 30 | Number of employees

The average number of persons employed by the Bank breaks down as follows:

	2003 NUMBER	2002 NUMBER
Senior management	31	31
Managerial staff	134	132
Clerical staff	1 086	1 116
Workers	7	7
	1 258	**1 286**

note 31 | Remuneration, advances and commitments to various bank directors and officers

POSITION AS AT 31.12.2003 EUR	REMUNERATION PAID IN 2003 IN ACCORDANCE WITH POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	1 733 333 (23)	3 221 660 (11)	2 515 433 (11)	56 960 (2)	- (-)
Senior management	8 635 087 (31)	3 365 698 (19)	1 992 428 (18)	5 798 (1)	591 827 (31)

SITUATION AU 31.12.2002 EUR	REMUNERATION PAID IN 2002 IN ACCORDANCE WITH POSITION OCCUPIED	CREDIT FACILITIES AND GUARANTEES GRANTED	LOANS OUTSTANDING	GUARANTEES OUTSTANDING	PENSION PROVISION
Board of Directors	1 581 833 (25)	3 526 933 (13)	2 692 358 (13)	63 854 (2)	- (-)
Senior management	8 621 428 (31)	3 641 877 (18)	2 330 104 (18)	6 980 (3)	440 648 (31)

( ): number of persons concerned

note 32

Extraordinary charges

As part of its cost control policy, in 2003 the Bank decided to continue the steps taken in 2002 to encourage early retirement. As in 2002, the estimated cost was fully provisioned under the item “Exceptional expenses”.

note 33

Association for the guarantee of deposits

On 25 September 1989 all credit institutions in the banking sector in the Grand Duchy of Luxembourg came together to form a non-profit association under the name of Association pour la Garantie des Dépôts, Luxembourg (AGDL).

In accordance with the Law of 5 April 1993, as amended by the Laws of 11 June 1997 and of 27 July 2000, AGDL's sole object is to provide a system for the mutual guarantee of deposits of private customers of AGDL member banks (the "Guarantee"). All depositors who are private persons are eligible for this Guarantee, irrespective of their nationality or place of residence. The Guarantee also extends to small companies subject to the law of a Member State of the European Union, which, because of their size, are authorised, pursuant to Article 215 of the Law of 10 August 1915 on commercial companies, as amended, to draw up a short-term balance sheet.

In the case of the insolvency of a member establishment, the AGDL protects all monetary depositors by guaranteeing the reimbursement of their deposits up to an amount of EUR 20 000.

In the same case, the AGDL protects all investors by guaranteeing the reimbursement of their debts resulting from investments up to an amount of EUR 20 000.

For each member, the Guarantee is limited to a maximum amount of EUR 40 000 or its countervalue in foreign currency per customer, regardless of the number of accounts or deposits a customer may have with the same credit institution.

The amount of the guarantee is an absolute limit and cannot be increased to take into account interest, fees or any other amounts.

In 2003 the Bank wrote back the AGDL provision set up in previous years (see note 28).

note 34 | Disputes

In the course of 2000, several directors, managers and members of staff of the Bank as well as some former directors, managers and members of staff were charged by a Belgian magistrate with offences relating to fraud as a result of their professional activities at the Bank.

The outcome of these charges is not certain and it is impossible to foresee their possible impact on the financial situation of the Bank.

After analysing the situation and all the reserves already held in line with the Bank's traditionally prudent approach to risk management, it is not, at this moment, deemed necessary to constitute a provision.

ALMANIJ GROUP

as at 31 December 2003

Almanij S.A.

KBC BANK AND INSURANCE HOLDING COMPANY N.V.

A major player on the Belgian and central European market, the Bancassurance group comprises KBC Bank, KBC Asset Management and KBC Assurances. It employs more than 45 000 staff and serves some 12 million customers.

KBL GROUP EUROPEAN PRIVATE BANKERS

The driving force of Private Banking within the Almanij Group, KBL Group European Private Bankers groups together banks and management companies comprising some 3 900 staff across Europe.

ALMAFIN S.A.

Almafin is a financial services company specialised in the fields of real estate, leisure and rental.

GEVAERT S.A.

Gevaert is an international investment company.

— KBC Bank S.A.
— KBC Asset Management S.A.
— KBC Assurances S.A.

— Kredietbank S.A. Luxembourgeoise
  — Banco Urquijo S.A.
  — Brown, Shipley & Co. Ltd
  — Merck Finck & Co, Privatbankiers
  — Theodoor Gilissen Bankiers N.V.
  — KBL France
    — Europe Egide Finance S.A.
    — Kempf S.A.
    — Michaux Gestion S.A.
  — Fidef Ingénierie Patrimoniale S.A.
  — Fumagalli Soldan SIM spa
  — KBL Bank Ireland Unltd
  — Banque Continentale du Luxembourg S.A.
  — Kredietrust Luxembourg S.A.
  — Kredietbank (Suisse) S.A.
    — Jacxsens & Partner Vermögensverwaltungs AG
    — Privagest S.A.
  — KB Luxembourg (Monaco) S.A.

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Primary Markets	Tel.: 47 44 45	Corporate Loans and Research	Tel.: 4797-3885
Fixed-Income Trading	Tel.: 26 21 01 22	Corporate Trust	Tel.: 4797-3926
Stock Exchange	Tel.: 4797-2280	Loan Management	Tel.: 4797-2786
Sales Bonds	Tel.: 26 21 01 33	Custody	Tel.: 4797-2750
Sales Equity and Funds	Tel.: 46 38 37	KBL Direct Access	Tel.: 4797-2495
Sales Money Market	Tel.: 47 15 20	Transfers	Tel.: 4797-2574
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Money Markets	Tel.: 26 21 03 11	Private Equity & Corporate Finance	Tel.: 4797-2941
Bullion and Precious Metals	Tel.: 26 21 03 33	Corporate Banking & International Loans	Tel.: 4797-3905

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Products and services	Tel.: 4797-2020	Stock Exchange Orders	Tel.: 4797-2272
Appointments at reception	Tel.: 4797-2090	Private Banking Department	Tel.: 4797-2100/2099

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Manager:	Manager:	Manager:	Manager:
Jean-Marie Spanier	**Antoine Burnotte**	**Erik Roose**	**François Lanners**

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Investment Funds	Tel.: 46 819-4539
Institutional investors	Tel.: 46 819-4180

This annual report is available in French, Dutch and English.

Only the French version is authentic.

european private bankers

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